



COLORADO STATE UNIVERSITY SYSTEM

Financial and Compliance Audit

June 30, 2006

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2007 MEMBERS**

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COLORADO STATE UNIVERSITY SYSTEM

Table of Contents

	Page
Report Summary	1
Recommendation Locator	3
Financial and Compliance Audit Report Section:	
Description of the Colorado State University System	7
Findings and Recommendations	11
Disposition of Prior Audit Findings and Recommendations	18
Independent Auditors' Report	25
Management's Discussion and Analysis (Unaudited)	27
Statements of Net Assets	36
Statements of Financial Position – Discretely Presented Component Unit	38
Statements of Revenues, Expenses, and Changes in Net Assets	39
Statements of Activities – Discretely Presented Component Unit	40
Statements of Cash Flows	41
Notes to Basic Financial Statements	43
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	79
Required Communications to Legislative Audit Committee	81
Summary of Uncorrected Audit Differences [KAM 6244]	84
Revenue Bonds' Earnings Requirements Section:	
Independent Auditors' Report	85
Revenue Bonds' Earnings Requirement Schedules	86

COLORADO STATE UNIVERSITY SYSTEM

Table of Contents

	Page
State-Funded Student Financial Assistance Programs Financial Audit Report Section:	
Introduction	91
Independent Auditors' Report on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs	93
Statement of Appropriations, Expenditures, Transfers, and Reversions	95
Notes to Statement of Appropriations, Expenditures, Transfers, and Reversions	96
Schedule of Appropriations, Expenditures, Transfers, and Reversions – Colorado State University	97
Schedule of Appropriations, Expenditures, Transfers, and Reversions – Colorado State University – Pueblo	98

COLORADO STATE UNIVERSITY SYSTEM

Report Summary

Year ended June 30, 2006

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado State University System (the System) for the year ended June 30, 2006. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. KPMG was not engaged to audit the System's discretely presented component unit, the Colorado State University Foundation (the Foundation). The Foundation was audited by other auditors as disclosed in our Independent Auditors' Report, and the audit was not performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

We conducted the related fieldwork from May 15, 2006 to October 13, 2006. The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of the Colorado State University System as of and for the year ended June 30, 2006. This includes a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Report on the Colorado State University System's internal control over financial reporting and compliance and other matters based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Report on the Colorado State University System's compliance with applicable bond covenants.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the Colorado State University System for the year ended June 30, 2006.
- Evaluate progress in implementing prior audit findings and recommendations.

The System's schedule of expenditures of federal awards and applicable opinions thereon by the Office of the State Auditor, State of Colorado, are included in the June 30, 2006 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on the System's basic financial statements and its Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2006.

One audit adjustment was not made to the basic financial statements, which had a net effect on net assets of approximately \$250,000. This passed difference would have resulted in a decrease to net assets and is not considered material to the System's basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Report Summary

Year ended June 30, 2006

We issued a report on the System's internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*. This report did not address the Foundation, which was audited by other auditors. We noted no matters involving the internal control over financial reporting of the System and its operation that we consider to be a material weakness. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did note, however, certain areas where the System could improve its internal control and compliance procedures, which are described in the Findings and Recommendations section of this report.

Recommendations and the System's Responses

A summary of the recommendations for all comments is included in the Recommendation Locator beginning on page 3. The Recommendation Locator also shows the System's responses to the audit recommendations. A discussion of the audit comments and recommendations is contained in the Findings and Recommendations section of our report.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2005 included 17 recommendations. The disposition of these audit recommendations as of June 30, 2006 was as follows:

Implemented	14
Partially implemented	1
Not implemented	2
	<hr/>
	17
	<hr/> <hr/>

COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2006

Recommendation Locator						
Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
1	12 – 13	Colorado State University should document their change management policies over the Banner, HRS, CLM, and CIS systems into a formal policy. The SARS and SAM systems were replaced with Banner in Fiscal Year 2006. This policy should provide a step-by-step process for how all changes should be uniformly handled. This policy should be documented, clearly communicated to the users of these systems, and should address their job processing, backup procedures, restoration testing, the security of backup media, and the limitation to changes made by change management personnel. Documentation for any recovery testing should also be maintained.	CSU	FSA	Agree	July 2007
2	13	Colorado State University should maintain support for the password configuration settings for all systems and maintain support for the periodic reviews of system users as evidence of system application controls that are in place.	CSU	FSA	Partially Agree	April 2007

COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2006

Recommendation Locator						
Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
3	14	<p>Colorado State University should consider implementing the following actions to ensure that an appropriate internal control environment is maintained and monitored:</p> <ul style="list-style-type: none"> a) Reemphasizing through effective communication that an appropriate tone at the top within each college of the University is in place and will be maintained through mandatory training for appropriate personnel. b) Incorporating into policies and performance evaluations the expectations of senior management for strong ethical behavior and proper financial accountability, and highlighting the outlets available for communication of potential matters by employees without fear of retribution in employee training events, including new hire orientation sessions. c) Encouraging business officers within each college to ask knowledgeable accounting/procurement officials about 	CSU	FSA	Agree	April 2007

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2006

Recommendation Locator						
Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
4	16	<p>questionable transactions or potential financial activities before they are authorized or consummated.</p> <p>d) Considering establishment of an ethics/fraud hotline and communicating the availability of such a reporting tool.</p> <p>e) Continuing the existing internal control monitoring process to ensure college attestation memos are signed by appropriate individuals having adequate knowledge of financial activities during the fiscal year within each college.</p> <p>We recommend that CSU – Pueblo should document the reconciliation of its financial records to the 3rd party loan service provider statements no less than annually. This reconciliation should include a detailed review by a supervisor of the reconciliation, evidenced by a signature of the reviewer.</p>	CSU-P	FSA	Agree	October 2006

COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2006

Recommendation Locator						
Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
5	16	Colorado State University – Pueblo should perform an assessment to determine whether the AIS system can be enhanced to provide better reporting functionality to meet the financial reporting needs of the University.	CSU-P	FSA	Agree	September 2006
6	17	Colorado State University – Pueblo should strengthen procedures and controls to ensure that Pell payment data is submitted to the students within the specified time frame.	CSU-P	SA	Agree	December 2006
7	17	Colorado State University – Pueblo should strengthen procedures to ensure that the Return of Title IV funds calculations and the related returns are performed on a timely basis.	CSU-P	SA	Agree	December 2006

COLORADO STATE UNIVERSITY SYSTEM

Description of the Colorado State University System

Year ended June 30, 2006

Organization and Administration

The institutions that compose the Colorado State University System (the System) are established in Title 23, C.R.S. The Board of Governors (the Board) has control and supervision of two distinct institutions: Colorado State University – a land-grant University and the Colorado State University – Pueblo – a regional, comprehensive university.

The Board is also responsible for the Colorado State University Agricultural Experiment Station, the Cooperative Extension Service, and the Colorado State Forest Service. The 13-member Board consists of:

- Nine voting members appointed by the Governor and confirmed by the Senate for four-year terms.
- Four advisory members representing the student bodies and the faculty councils for each of the two institutions, elected for one-year terms.

The Board administers the State Board of Agriculture Fund located in the State Treasury. The Board is authorized to set tuition, pay expenses, and hire officials. The chief academic and administrative officers are the Chancellor of the Colorado State University System and the President of each institution.

Colorado State University – Fort Collins

In 1870, the Territorial Council and House of Representatives of the Territory of Colorado created the Agricultural College of Colorado (the College). When the Territory became a state in 1876, the College was placed under the governance of the State Board of Agriculture.

The College began admitting its first students in 1879. It was also designated that year as Colorado's land-grant college and recipient of federal endowment support under the Morrill Act of 1862. Subsequent federal legislation led to the establishment of the Agricultural Experiment Station and the Cooperative Extension Service of the College.

State legislation also made the College responsible for the Colorado State Forest Service. Following several name changes, the College became Colorado State University in 1957. In this report, the terms Colorado State University and CSU refer to Colorado State University – Fort Collins.

Resident Instruction

The following 8 colleges offer more than 75 fields of study at the undergraduate level and 92 fields of study at the graduate level, as well as 9 professional degrees:

- College of Agriculture Sciences
- College of Applied Human Sciences
- College of Arts, Humanities, and Social Sciences
- College of Business
- College of Engineering
- College of Forestry and Natural Resources
- College of Natural Sciences

COLORADO STATE UNIVERSITY SYSTEM

Description of the Colorado State University System

Year ended June 30, 2006

- College of Veterinary Medicine and Biomedical Sciences

Agricultural Experiment Station

The Agricultural Experiment Station provides a basis for agricultural research and study programs on the Fort Collins campus and at nine research centers located throughout the State. The mission of the Agricultural Experiment Station is to conduct research that addresses the economic viability, environmental sustainability, and social acceptability of activities impacting agriculture, natural resources, and consumers in Colorado. It is a public service organization that disseminates the results of its research to the public through the Cooperative Extension Service and various publications and conferences.

Cooperative Extension Service

The mission of the Cooperative Extension Service is to provide information and education, and encourage the application of research-based knowledge in response to local, state, and national issues affecting individuals, youth, families, agricultural enterprises, and communities of Colorado. The Cooperative Extension Service disseminates among the people of Colorado useful and practical information on subjects related to (a) agricultural production, marketing, and natural resources; (b) family living; (c) 4-H and other youth activities; and (d) rural and community development. The location of professional staff throughout the State permits the Cooperative Extension Service to respond to the needs of local communities.

Colorado State Forest Service

The Colorado State Forest Service provides management, protection, and utilization of Colorado State Forest lands.

Colorado State University – Pueblo

Colorado State University – Pueblo was incorporated in 1935 as Southern Colorado Junior College. One year later, local citizens decided to support the institution with county taxes. They organized the Pueblo Junior College District, and the school was renamed Pueblo Junior College. In 1951, Pueblo Junior College became the first accredited junior college in Colorado.

In 1963, Colorado's General Assembly enacted legislation changing Pueblo Junior College to a four-year institution – Southern Colorado State College – to be governed by the board of trustees of State Colleges. By then, four new buildings had been erected on the new campus north of Pueblo's Belmont residential district. On July 1, 1975, the State Legislature granted the institution university status. Three years later, the Colorado State Board of Agriculture assumed governance of the University of Southern Colorado. In July 2003, the university was renamed to Colorado State University – Pueblo.

Colorado State University – Pueblo (CSUP) is accredited at the bachelor's and master's levels. CSUP is a regional, comprehensive university, with moderately selective admissions standards displaying excellence in teaching and learning. CSUP emphasizes professional, career-oriented, and applied programs at the undergraduate and graduate levels while maintaining strong programs in the liberal arts and sciences. CSUP has received the federal government's designation as a Hispanic Serving Institution granted to universities with at least 25% of the student population of Hispanic descent.

COLORADO STATE UNIVERSITY SYSTEM

Description of the Colorado State University System

Year ended June 30, 2006

Enrollment and Faculty

Enrollment and faculty and staff information is presented below. Enrollment information was obtained from the Format 30 of the Budget Data Book for fiscal year 2005-2006, prepared for the Colorado Commission on Higher Education (CCHE).

CSU reports full-time equivalent (FTE) student, faculty, and staff for three continuous fiscal years as follows:

Colorado State University Full-Time Equivalent (FTE) Student Enrollment			
	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal year:			
2005 – 2006	17,972	4,466	22,438
2004 – 2005	18,214	4,680	22,894
2003 – 2004	17,830	4,795	22,625

Colorado State University Full-Time Faculty and Staff			
	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal year:			
2005 – 2006	1,503	4,091	5,594
2004 – 2005	1,474	4,043	5,517
2003 – 2004	1,451	4,029	5,480

CSU – Pueblo reports full-time equivalent (FTE) student, faculty, and staff for three continuous years as follows:

Colorado State University – Pueblo Full-Time Equivalent (FTE) Student Enrollment			
	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal year:			
2005 – 2006	3,162	356	3,518
2004 – 2005	3,267	349	3,616
2003 – 2004	3,158	376	3,534

Colorado State University – Pueblo Full-Time Faculty and Staff			
	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal year:			
2005 – 2006	194	254	448
2004 – 2005	204	324	528
2003 – 2004	192	308	500

COLORADO STATE UNIVERSITY SYSTEM

Description of the Colorado State University System

Year ended June 30, 2006

Colorado State University Foundation (the Foundation)

The System's reporting entity includes the Foundation as a discretely presented reporting unit. The Foundation is a legally separate, tax-exempt entity that was established to receive, manage, and invest philanthropic gifts on behalf of CSU. The Foundation is governed by its board of directors, which includes five voting members and three ex-officio nonvoting members. No person who is an employee of the University is eligible to serve as an officer of the Foundation or as a voting board member.

COLORADO STATE UNIVERSITY SYSTEM

Findings and Recommendations

Year ended June 30, 2006

We have audited the basic financial statements of the Colorado State University System (the System) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. In planning and performing our audit of the basic financial statements, we considered the System's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated October 13, 2006 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since October 13, 2006. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

Our procedures were designed primarily to enable us to form an opinion on the basic financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We have attempted, however, to use our knowledge of the System gained during our work to make comments and suggestions that we hope will be useful to the System.

During our current year engagement, we noted certain matters involving internal control and other operational matters that are presented for the System's consideration. These comments and recommendations, all of which have been discussed with the appropriate members of the System's management, are intended to further improve internal control or result in other operating efficiencies.

Information Systems Change Management Controls – CSU

CSU has several systems they rely on for their accounting, human resource, student loan servicing, and federal award functions. Entities often implement system changes for a variety of reasons. In order to ensure the appropriate employees are notified, approvals are obtained, and proper testing is performed, entities should have a formal change management policy in place over all systems. In addition, the policy should address guidelines for recovery testing by Colorado State University and documentation that should be maintained as evidence of the testing. This policy should be clearly communicated to users. The policy should also limit system changes to change management personnel.

During our testwork at CSU, we noted that CSU does have a change management policy in place over the Students Accounts Receivable System (SARS), Banner Accounting System, Human Resources System (HRS), Campus Loan Manager (CLM), Campus Information System (CIS), and Student Aid Management System (SAM), but this policy is not formally documented. We also noted that there is no written policy for how CSU addresses how their job processing, backup procedures, restoration testing, and securing backup media are handled and how production changes are limited to change management personnel. CSU performs recovery testing twice each year, but does not maintain the support for this testing.

Recommendation No. 1

Colorado State University should document their change management policies over the Banner, HRS, CLM, and CIS systems into a formal policy. The SARS and SAM systems were replaced with Banner in Fiscal Year 2006. This policy should provide a step-by-step process for how all changes should be uniformly handled. This policy

COLORADO STATE UNIVERSITY SYSTEM

Findings and Recommendations

Year ended June 30, 2006

should be documented, clearly communicated to the users of these systems, and should address their job processing, backup procedures, restoration testing, the security of backup media, and the limitation to changes made by change management personnel. Documentation for any recovery testing should also be maintained.

Colorado State University Response: Agree. Implementation date: July 2007

Access Controls to Information System Applications – CSU

In order to achieve the appropriate restriction of access to an entity's information systems, an entity should have numerous controls in place including:

- Password parameters to access application systems should be established in addition to password parameters to access mainframe systems to ensure appropriateness.
- Periodic reviews of system users access and responsibilities should be performed and documented to ensure appropriateness.

Colorado State University has numerous application systems which include SARS, Banner, HRS, CLM, CIS, and the SAM systems. In May 2006, SARS and SAM systems were converted to Banner. During our testwork, we were unable to obtain:

- Configuration settings (the settings that define the system) for SARS, Banner, HRS, CLM, CIS, and the SAM systems. Without access to this information, we were unable to test the password parameters used to access the systems noted above.
- Documentation to support periodic reviews of system users. Without this documentation, we were unable to determine if the list of system users was reviewed by the University for appropriate segregation of duties and access.

Recommendation No. 2

Colorado State University should maintain support for the password configuration settings for all systems and maintain support for the periodic reviews of system users as evidence of system application controls that are in place.

Colorado State University Response: Partially Agree. Implementation date: April 2007

To the extent that specific system functionality allows and to the extent that CSU determines this procedure to be cost beneficial for each specific system the University will maintain support for the password configuration settings for systems. CSU will also maintain documentation for the extensive password requirements and procedures that are currently required for CSU systems.

Also, to the extent that specific system functionality allows and to the extent that it is deemed to be cost beneficial, CSU will generate an annual listing of system users for systems and have provide those for review to applicable administrators for review.

COLORADO STATE UNIVERSITY SYSTEM

Findings and Recommendations

Year ended June 30, 2006

Need for Enhanced Communication of the Importance of Internal Control Environment and Financial Management Expectations – CSU

An appropriate tone at the top is necessary to reduce instances of fraud and abuse within an entity. Based on our audit, we noted the need for enhanced communication to senior management officials (e.g. Deans and Department heads) and employees regarding the importance of establishing and maintaining a strong internal control environment and setting clear financial management expectations throughout the University. This will reduce the risk of fraudulent financial reporting, misappropriation of assets, and potential abuse related to University disbursements. An appropriate internal control environment emphasizes enhanced communications between college business officials and finance and accounting, making inquiries about questionable transactions prior to funds being disbursed, receiving appropriate approvals prior to authorizing purchases or travel requisitions, implementing preventive controls rather than relying only on detective controls, and establishing clear expectations and related performance standards for senior management officials who set the appropriate tone at the top for the University. This communication can take place at the University through trainings for appropriate personnel. CSU currently obtains attestation memos (memos attesting to internal controls during the fiscal year) from each college. CSU has also considered the establishment of a fraud/ethics hotline.

During the fiscal year 2006 audit, CSU brought to our attention several instances of potential fraud and abuse, including two cases in different departments each estimated to be approximately \$17,000 in potentially misappropriated or misused funds. Also, in conducting our American Institute of Certified Public Accountants Statement on Auditing Standards (SAS) No. 99, *Consideration of Fraud in the Financial Statement Audit*, meetings with University officials and employees, certain financial management concerns were brought to our attention. However, our audit did not reveal any other specific instances of potential fraud or abuse at the University.

Recommendation No. 3

Colorado State University should consider implementing the following actions to ensure that an appropriate internal control environment is maintained and monitored:

- f) Reemphasizing through effective communication that an appropriate tone at the top within each college of the University is in place and will be maintained through mandatory training for appropriate personnel.
- g) Incorporating into policies and performance evaluations the expectations of senior management for strong ethical behavior and proper financial accountability, and highlighting the outlets available for communication of potential matters by employees without fear of retribution in employee training events, including new hire orientation sessions.
- h) Encouraging business officers within each college to ask knowledgeable accounting/procurement officials about questionable transactions or potential financial activities before they are authorized or consummated.
- i) Considering establishment of an ethics/fraud hotline and communicating the availability of such a reporting tool.
- j) Continuing the existing internal control monitoring process to ensure college attestation memos are signed by appropriate individuals having adequate knowledge of financial activities during the fiscal year within each college.

COLORADO STATE UNIVERSITY SYSTEM

Findings and Recommendations

Year ended June 30, 2006

Colorado State University Response:

In 2004, we issued a university financial policy on internal controls that was modeled after COSO (Council of Sponsoring Organizations of the Treadway Commission) and we recognize the importance of further management communications under that model. The cited facts are correct, but should also be put in the context that the University has taken appropriate action in both cases, and there were unique aspects in each case. In the most recent case, collusion was a major element that strains any internal control system, and the case is still under further investigation.

- a) We will reinforce the importance of management communications of internal controls so that senior management expectations are clearly stated throughout the organization.

Implementation date: April 2007.

- b) We will communicate the existing policies and avenues of reporting instances of fiscal misconduct in those recommended and other means.

Implementation date: April 2007.

- c) We will reinforce existing policy on the free flow of financial information when sensitive issues need to be escalated to central functional authorities.

Implementation date: April 2007.

- d) We have added a University ethics/fraud hotline in addition to the State of Colorado hot line available to state employees.

Implementation date: February 2007.

- e) We will strengthen the existing internal control policy to clarify although it states “to the best of our knowledge” that also presumes an active role in designing an internal control that would appropriately escalate issues that need attention and support the free flow of financial information.

Implementation date: April 2007.

Reconciliation of Student Loans Receivable – CSU-Pueblo

Colorado State University – Pueblo outsources the tracking of activity, collections, and reporting of its Perkins Loan program (student loans receivable) to a third-party service provider. CSU – Pueblo had approximately \$583,000 in Perkins loan expenditures in Fiscal Year 2006. Currently CSU – Pueblo records the activity (new loans, principal payments, and accrued interest) from the third-party statement for each student loan and rolls forward the student loan receivable balance each period. During our audit work, we observed the University did not have a formal reconciliation of the June 30, 2006 ending outstanding loans balance between the third-party statement to its own records. The University should periodically perform the reconciliation between the student loan receivable balance on its accounting system to the third-party statements to ensure that student loans are properly stated throughout the year, particularly at year end.

COLORADO STATE UNIVERSITY SYSTEM

Findings and Recommendations

Year ended June 30, 2006

Recommendation No. 4

We recommend that CSU – Pueblo should document the reconciliation of its financial records to the 3rd-party loan service provider statements no less than annually. This reconciliation should include a detailed review by a supervisor of the reconciliation, evidenced by a signature of the reviewer.

Colorado State University-Pueblo Response:

Agree and implemented. All CSU-Pueblo Financial and Student Services staff have been informed that any and all reconciliations must be done on a written or electronic schedule and reviewed by a second party.

Limitations of Colorado State University – Pueblo’s Financial Reporting System

Colorado State University – Pueblo (the University) utilizes the Administrative Information System (AIS) system as the central accounting system for the posting, processing, and reporting of financial transactions. The AIS system is also used by University personnel for management reporting and decision making purposes.

During our audit, we observed that the University prepares its generally accepted accounting principles (GAAP) basic financial statements using the State’s COFRS system rather than utilizing the AIS system on which all financial transactions are initially recorded. This is because the AIS system does not have its chart of accounts set up to provide its own set of GAAP financial statements. In addition, although this reconciliation was completed for fiscal year 2006, AIS system limitation makes reconciling the COFRS system to the AIS system complex and time consuming, increasing the risk for potential errors in the University’s external financial statements.

Recommendation No. 5

Colorado State University – Pueblo should perform an assessment to determine whether the AIS system can be enhanced to provide better reporting functionality to meet the financial reporting needs of the University.

Colorado State University-Pueblo Response:

Agree and implementation in process. CSU-Pueblo has done an assessment of the Financial Reporting System and determined the necessary changes to the chart of accounts. We will produce GASB Financial Statements for FY2007 directly out of the Financial Reporting System in AIS.

Colorado State University – Pueblo – Federal Student Aid Cluster – Pell Payment Data and Reporting

CSU – Pueblo had approximately \$4,159,000 in Pell expenditures in Fiscal Year 2006.

Criteria – Educational institutions are required to submit Pell payment data to the U.S. Department of Education through the Common Origination and Disbursement (COD) system. Disbursements to students must be made 30 days prior to or after the University reports the disbursement to the COD.

Condition – During our testwork, we observed two instances of noncompliance where the University failed to disburse funds to students within the specified time frame.

Questioned Costs – None.

COLORADO STATE UNIVERSITY SYSTEM

Findings and Recommendations

Year ended June 30, 2006

Context – Failure of the University to strengthen procedures and controls in place to ensure effective monitoring of its Pell disbursement submissions to students could result in significant noncompliance with Pell Payment Data requirements, and potentially result in the University losing the ability to participate in the Pell grant program.

Recommendation No. 6

Colorado State University – Pueblo should strengthen procedures and controls to ensure that Pell payment data is submitted to the students within the specified time frame.

Colorado State University-Pueblo Response:

Agree and implemented. A programmed semi-monthly reminder has been added to the Pell Grant Manager's calendar to help ensure that data is submitted on a timely basis.

Colorado State University – Pueblo – Federal Student Aid Cluster – Return of Title IV Funds

CSU – Pueblo had approximately \$20,418,000 in Title IV expenditures in Fiscal Year 2006.

Criteria – When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 CFR sections 668.22(a)(1)-(3)).

Returns of Title IV funds are required to be deposited to the federal Financial Student Aid (FSA) accounts within 30 days after the date the institution determines that the student withdrew.

Condition – We noted one out of five instances during our testwork over return of Title IV funds where the University did not perform the calculation until after the 30 day mark subsequent to the student's official withdrawal date.

Questioned Costs – None.

Context – While the calculation was performed properly, and the correct amount of aid was refunded, the University did not perform the calculation and return of federal funds within the specified period of time. The failure to implement proper procedures and controls over the return of Title IV funds could increase the risk of noncompliance without being observed by the University, and could result in the University's inability to receive and award Title IV funds to eligible students.

Recommendation No. 7

Colorado State University – Pueblo should strengthen procedures to ensure that the Return of Title IV funds calculations and the related returns are performed on a timely basis.

COLORADO STATE UNIVERSITY SYSTEM

Findings and Recommendations

Year ended June 30, 2006

Colorado State University-Pueblo Response:

Agree and implemented. The Loan counselor and the Student Counseling Manager will check continually to help insure compliance.

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

Following are the audit recommendations for the year ended June 30, 2005 and their disposition as of October 13, 2006.

Recommendation	Disposition
<p>1. Colorado State University should consider implementing a centralized, automated vacation and sick time reporting system that would formalize the approval of leave as well as more accurately track the year-end balances. By implementing this process, leave balances owed to employees would be more accurately tracked, and management would be able to determine the year-end compensated absence accrual based upon actual hours instead of using numerous man hours to determine the year-end estimate. In addition, the automated system should require employee leave balances to be reported on each employee's pay remittances. This would serve as an additional control since employees would report errors, if found, when reviewing their pay remittances.</p> <p>If CSU believes an enhanced vacation and sick time reporting system would not be cost beneficial to its current operations, CSU should implement policies and procedures requiring each department to obtain proper, approved leave slips that can be reconciled to year-end worksheets. These year-end worksheets should be reviewed at year end for accuracy, and departments should formally report year-end leave balance to employees.</p>	Implemented
<p>2. Colorado State University should ensure that the formal review process over the Incurred But Not Reported (IBNR) calculation is being performed, including a detailed review of the mathematical accuracy and tie-out to all supporting documentation. This review should include documentation of issues resolved and should be evidenced by signature approval. Lastly, CSU should continue to consult with an actuary when needed.</p>	Implemented

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

Recommendation	Disposition
<p>3. Colorado State University should evaluate its current procurement policy to require proof of receipt of goods or services prior to payment in most cases. Only in limited circumstances should the policy allow payment without first verifying proof of receipt of the good or service.</p>	Implemented
<p>4. Colorado State University should ensure that the formal review policy in place over journal entries is being performed by all departments of the University.</p>	Implemented
<p>5. In order to strengthen access controls surrounding information systems, Colorado State University should consider the following:</p> <p>a. Establishing password parameters over all information system applications to ensure appropriate restriction to the University's information. This is in addition to the mainframe password parameters already in place;</p> <p>b. Revising its policy to require passwords to expire every 90 days;</p> <p>c. Implementing a procedure that ensures all terminated employees are removed from all applications within two weeks of their termination;</p> <p>d. For the Human Resources System (HRS), Financial Reporting System (FRS), and Campus Information System (CIS), performing periodic reviews of employees' access rights to these systems. The review should be performed by someone who is knowledgeable of both the system and the employees' job function. The review and the results of the review should be documented on a timely basis.</p>	<p>a. Not Implemented. See current year Recommendation No. 2 regarding maintenance of support.</p> <p>b. Not Implemented. Colorado State University has chosen not to implement.</p> <p>c. Implemented</p> <p>d. Partially Implemented. See current year Recommendation No. 1.</p>

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

Recommendation	Disposition
<p>6. Colorado State University should implement a formal change management policy over Student Accounts Receivable System (SARS). This policy should provide a step-by-step process for how all changes should be uniformly handled. The policy should be documented, clearly communicated to the users of SARS, and should require:</p> <p>a. Documenting approvals of the change. This should be obtained prior to the change being placed into production.</p> <p>b. Retaining supporting documentation of testing performed prior to the change being placed into production.</p>	<p>a. Not Implemented because SARS system was replaced in Fiscal Year 2006. See current year Recommendation No. 1.</p> <p>b. Not Implemented because SARS system was replaced in Fiscal Year 2006. See current year Recommendation No. 1.</p>
<p>7. Colorado State University – Pueblo should strengthen the controls over financial reporting by:</p> <p>a. Modifying the University’s Financial Reporting Checklist to include requirements of GASB Statement No. 33 and other applicable accounting and reporting standards.</p> <p>b. Implementing a year-end footnote review process which requires all footnotes to be agreed to the final, adjusted financial statements, and other supporting documentation. The University should add this step to its current Closing Calendar to ensure this is performed.</p> <p>c. Developing and implementing cash flow statement preparation guidelines. These guidelines should document how each number was determined so that the preparer in the following year can consistently draft the statement. The guidelines should also include certain tests to perform to ensure accuracy of the statement. The guidelines should also document common errors in order to avoid such errors in the future.</p>	<p>a. Implemented</p> <p>b. Implemented</p> <p>c. Implemented</p>

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

Recommendation	Disposition
<p>d. Performing a formal review of the financial statement package prior to submission for consolidation. This review should be performed by someone at least one level above the preparer of the reporting package and the review should be documented. The review should consist of performing analytical procedures, reviewing unusual balances or variances, ensuring footnotes agree to the financial statements, ensuring accuracy of the cash flow statement, and determining that the financial statements are consistent with the reviewer's understanding of the University. The University should add this step to its current Closing Calendar to ensure this is performed.</p>	<p>d. Implemented</p>
<p>8. Colorado State University should perform timely reviews of the calculation and return of Title IV funds to ensure accurate returns of funds are being made within the required time frame. Evidence of the timely review should be documented.</p>	<p>Implemented – Additional information was obtained from the Department of Education.</p>
<p>9. In order to strengthen the controls surrounding cash management, Colorado State University – Pueblo should consider:</p> <p>a. Requiring a full-time employee versus a student employee to process periodic draw downs. Student employees are typically temporary in nature with limited experience in positions where they are responsible for processing significant transactions.</p> <p>b. Continuing to require a segregation of duties between calculating the draw downs, processing the draw downs, and reviewing the draw downs. This control was implemented by the University during October 2004. If the University determines that requiring a full-time employee to</p>	<p>a. Implemented</p> <p>b. Implemented</p>

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

Recommendation	Disposition
<p>perform the cash draw downs is not cost beneficial, the review function should be more robust in nature.</p> <p>c. Implementing a monitoring control for draws made during peak enrollment periods. Each day after the draw, the University should review the amount of the draw, the amount of the daily disbursements, and the forecasted amounts of the disbursements to be made during the remaining seven-day period.</p> <p>d. Determining the amount of the draws based upon actual disbursements made (disbursement rosters). If the University elects to continue determining draws based upon current methodology, the University should perform a reconciliation of total aid disbursed per the PowerFaids system (Student Account and Financial Aid System) to the total cash draw downs per the EdGAPS system (U.S. Department of Education Website) on a timely basis. This reconciliation should be reviewed by someone at least one level above the preparer.</p>	<p>c. Implemented</p> <p>d. Implemented</p>
<p>10. Colorado State University – Pueblo should establish procedures to ensure Title IV funds are being returned promptly and correctly by ensuring that at the beginning of each fiscal year, the total semester days for Fall, Spring, and Summer are calculated by appropriate personnel. Secondly, an employee other than the one performing the calculation should review, recalculate, and approve the calculation. Finally, the total semester days should be officially communicated to those employees responsible for calculating return of Title IV aid.</p>	<p>Not Implemented</p>

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

Recommendation	Disposition
11. Colorado State University – Pueblo should implement monitoring procedures over the verification process during the award process. These procedures should include someone separate from the verification process selecting a sample of verified data, reviewing the information for completeness and accuracy, and documenting this review within the file on a timely basis.	Implemented
12. Colorado State University – Pueblo should continue to implement procedures to ensure all elements of the Fiscal Operations Report and Application to Participate (FISAP) are accurate. Such procedures should include a formal review that agrees all amounts reported to supporting documentation.	Implemented
13. Colorado State University – Pueblo should insert a clause in all Governor’s Opportunity Scholarship (GOS) award letters, which the student must sign. This clause should state that the student agrees not to obtain loans while receiving the GOS aid.	Implemented
14. Colorado State University – Pueblo should insert information in the GOS contracts, which the student must sign stating the requirements surrounding student support services/peer mentoring participation. In addition, the University should implement a procedure for monitoring the students’ participation in such programs. The monitoring procedures should be performed on a periodic basis, requiring the students to report their participation in the programs. If a student does not report on a timely basis, the University should perform the necessary procedures to determine if the student is still eligible to receive GOS funding. Lastly, the procedures should be documented and should ensure that all students receiving funding are properly monitored.	Implemented

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2006

Recommendation	Disposition
<p>15. Colorado State University – Pueblo should implement a reconciliation control over the Student Unit Record Data System (SURDS) report. This process should reconcile the information reported in the SURDS report to both the information in the general ledger and information reported in other Colorado Commission of Higher Education (CCHE) reports. Reconciling items should be appropriately investigated and resolved. The reconciliation should be reviewed by someone at least one level above the preparer to ensure that the reconciliation is performed timely and accurately.</p>	Implemented
<p>16. Colorado State University should ensure that required reports are being submitted timely and accurately by adhering to its current policy which requires:</p> <p>a. Reviewing all grant agreements upon initiation and implement the necessary processes to ensure compliance with all requirements, including reporting.</p> <p>b. Assigning responsibility for completing the required reports timely.</p> <p>In addition, the current policy should be amended to include a secondary review of the report by another individual knowledgeable of the program prior to its submission.</p>	<p>a. Implemented</p> <p>b. Implemented</p>
<p>17. Colorado State University should continue to review the <i>Excluded Parties List System</i> (EPLS) for all vendors prior to contracting with the vendor.</p>	Implemented



KPMG LLP
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Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the years ended June 30, 2006 and 2005, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the System as of June 30, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2006 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 27-35 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 13, 2006

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

This section of the financial report presents a discussion and analysis of the financial performance of the Colorado State University System (the System) for the fiscal years ended June 30, 2006 and 2005. This discussion and analysis provides an analysis of the System's financial activities based on currently known facts, decisions, or conditions. This analysis should be read in conjunction with the System's financial statements and notes thereto, which are also presented in this document.

Financial Highlights

- The assets of the System exceeded its liabilities at June 30, 2006 by approximately \$590.8 million (net assets). Of this amount \$74.4 million was restricted for purposes which the donor or grantor or other external party intended. \$129.5 million is unrestricted and may be used to meet the System's ongoing obligations. Although unrestricted net assets are not externally restricted, they may be internally designated by the System's administration for various purposes.
- The System's net assets increased \$15.8 million during fiscal year 2006. \$10.4 million of this increase consisted of an increase in capital assets, net of related debt.
- In fiscal year 2006 the College Opportunity Fund legislation was implemented and the state provided support directly to students in the form of student tuition stipends paid by the state College Opportunity Fund (\$45.4 million). In addition, the System received payment from the state for the delivery of graduate, high cost/demand programs and special programs (\$68.2 million). This level of funding is consistent with the prior year level of funding.
- Fiscal year 2006 state capital contributions of \$1.4 million for the System decreased \$0.9 million from prior year levels of \$3.3 million.

The Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the System's finances and are comprised of three basic statements.

The Statements of Net Assets present information on all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the System's net assets changed during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

The Statements of Cash Flows are reported on the direct method. The direct method of cash flows reporting portrays cash flows from operations, noncapital financing, capital and related financing, and investing activities.

The System reports its activity as a business-type activity using the economic resources measurement focus and the accrual basis of accounting. The System is a blended component unit of the State of Colorado.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes provide information regarding both the accounting policies and procedures the System has adopted as well as additional detail of certain amounts contained in the basic financial statements. The notes to financial statements follow the basic financial statements.

The Management's Discussion and Analysis will focus on the primary government, which is the Colorado State University System.

Financial Analysis

The Statements of Net Assets present the assets, liabilities, and net assets of the Colorado State University System as of the end of the fiscal year. The System assets exceeded liabilities resulting in net assets at June 30, 2006 and 2005 of \$590.8 million and \$575.0 million, respectively. The majority (65% and 65%, respectively) of the System's net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt. These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

Summary of Net Assets (amounts expressed in thousands)

	June 30		
	2006	2005	2004
Current assets	\$ 283,649	269,665	270,274
Noncurrent assets, including capital assets (net), of \$470,994, \$455,325, and \$433,951, respectively	596,591	583,479	503,755
Total assets	880,240	853,144	774,029
Current liabilities	108,652	96,488	100,123
Noncurrent liabilities	180,755	181,627	123,874
Total liabilities	289,407	278,115	223,997
Net assets:			
Invested in capital assets, net of related debt	386,933	376,580	359,520
Restricted	74,378	76,769	75,312
Unrestricted	129,522	121,680	115,200
Total net assets	\$ 590,833	575,029	550,032

- The \$27.1 million increase in System assets from fiscal year 2005 to fiscal year 2006 is primarily attributable to a \$14.0 million increase in current assets, which is due to a \$7.9 million increase in cash and a \$5.7 million increase in other accounts receivable, in conjunction with a \$13.1 million increase in noncurrent assets. The increases in noncurrent assets, including a \$2.1 million increase in equipment and a \$8.4 million increase in System buildings and improvements, are due to capital projects being completed and capitalized during fiscal year 2006. The CSU University Center for the Arts Concert Hall, CSU Hughes Stadium improvements, and CSU heating plant improvements were all capitalized during fiscal year 2006. Construction in progress for the System also increased \$7.8 million as projects were completed and capitalized during the fiscal year and new and ongoing projects incurred construction projects costs.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

The \$79.1 million increase in assets from fiscal year 2004 to fiscal year 2005 is attributable to a \$79.7 million increase in noncurrent assets. The increase in noncurrent assets is primarily attributable to an increase in cash and cash equivalents from two Colorado State University (CSU) bond financings issued during the year. In addition, buildings and improvements increased by \$25.3 million due to capital projects being completed and being capitalized during fiscal year 2005. The CSU Summit Residence Hall and capital assets relating to the CSU Pueblo Energy Performance Project were capitalized during fiscal year 2005. Construction in progress for the System decreased \$3.5 million as projects were completed and capitalized during the fiscal year. This decrease was offset by costs associated with new and ongoing construction projects.

- The \$11.3 million fiscal year 2006 increase in the liabilities of the System is primarily attributable to a \$7 million accrual for emergency firefighting activities of the Colorado State Forest Service. The \$54.1 million fiscal year 2005 increase in the liabilities of the System is primarily attributable to the two CSU bond financings with a par value totaling \$55.3 million that occurred during fiscal year 2005.

The Statements of Revenues, Expenses, and Changes in Net Assets report the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net assets at the end of the year.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

Summary of Revenues, Expenses, and Changes in Net Assets

(Amounts expressed in thousands)

	June 30		
	2006	2005	2004
Operating revenues:			
Tuition and fees, net	\$ 203,967	143,637	143,951
Grants and contracts	251,941	237,444	239,008
State fee for service revenue	68,214	—	—
Auxiliary enterprises	100,033	96,043	100,669
Other	23,046	21,792	20,296
Total operating revenues	<u>647,201</u>	<u>498,916</u>	<u>503,924</u>
Operating expenses:			
Instruction	173,671	159,163	164,832
Research	151,756	143,648	136,181
Public service	70,490	64,255	71,010
Academic support	41,315	39,383	36,726
Student services	25,500	24,884	23,805
Institutional support	25,647	22,521	20,995
Operation and maintenance of plant	47,209	38,634	42,190
Scholarships and fellowships	8,155	9,169	9,201
Auxiliary enterprises	92,512	89,067	98,126
Depreciation	36,690	36,402	35,429
Other operating expenses	79	312	228
Total operating expenses	<u>673,024</u>	<u>627,438</u>	<u>638,723</u>
Operating loss	<u>(25,823)</u>	<u>(128,522)</u>	<u>(134,799)</u>
Nonoperating revenues:			
State appropriations	—	109,424	109,184
Other net nonoperating revenues	25,738	22,382	18,422
Net nonoperating revenues	<u>25,738</u>	<u>131,806</u>	<u>127,606</u>
Income (loss) before other revenues, expenses, gains or losses	(85)	3,284	(7,193)
State capital contributions	1,387	2,285	486
Capital grants	5,744	2,005	2,131
Capital gifts	7,971	17,215	8,566
Payments (to)/from governing boards or other institutions	82	(131)	(420)
Additions to permanent endowments	705	339	944
Increase in net assets	<u>15,804</u>	<u>24,997</u>	<u>4,514</u>
Net assets, beginning of year	<u>575,029</u>	<u>550,032</u>	<u>545,518</u>
Net assets, end of year	<u>\$ 590,833</u>	<u>575,029</u>	<u>550,032</u>

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

Prior to fiscal year 2006, it was the nature of public higher education institutions to report a loss from operations because the loss was reported before the state appropriation was taken into consideration. Legislative changes in the structure and delivery of state funding to higher education institutions eliminated state general fund appropriations that were previously reported as nonoperating revenues. In fiscal year 2006, the System received operating revenue earned from fee for service contracts with the state for delivery of graduate, high cost/demand, and special programs. The System also received operating revenue from tuition which was partially funded from student tuition stipends provided to the students by the state College Opportunity Fund. These changes resulted in a significant increase in operating revenue and a decline in the operating loss. In addition, since state appropriations were not received in fiscal year 2006, nonoperating revenue reported for the system also declined as described below.

The System experienced a \$25.8 million loss from operations in fiscal year 2006 and a \$128.5 million loss from operations in fiscal year 2005. In fiscal year 2006, this operating loss was offset by net nonoperating and other revenues of \$41.6 million, including \$29.4 million of gifts and capital gifts, \$5.5 million of investment income, and \$5.7 million of capital grants. In fiscal year 2005, this operating loss was offset by state appropriations of \$109.4 million and other nonoperating net revenues of \$44.1 million, including \$35.8 million of gifts and capital gifts, and \$4.6 million of investment income.

- Fiscal year 2006 System operating revenues increased \$148.3 million in relation to prior year levels. This is primarily attributable to a \$60.3 million increase in tuition and fee revenue in conjunction with a \$68.2 million increase in state fee for service contract revenue and a \$14.5 million increase in grants and contracts revenue. In fiscal year 2005 System operating revenues decreased \$5.0 million in relation to prior year levels.
- Fiscal year 2006 System operating expenses increased \$45.6 million in relation to prior year levels. This increase is in part attributable to a \$14.5 million increase in instruction expense due primarily to salary increases, an \$8.1 million increase in research expense attributable to increased levels of sponsored research activity, and a \$6.3 million public service expense increase which is primarily due to increased emergency firefighting activity by the Colorado State Forest Service. In addition, expenses for the operation and maintenance of plant increased \$8.6 million in fiscal year 2006 partly because of a \$4.2 million increase in utility costs. Institutional Support expenditures also increased \$3.1 million primarily because of salary increases and a \$1.9 million expense increase in CSU University relations, development, and marketing activities. Fiscal year 2005 System operating expenses decreased \$11.3 million in relation to prior year levels. Most of this decrease is attributable to a \$5.7 million reduction in Instruction expense which occurred because of a CSU one-time nonbase Faculty merit increase that occurred in fiscal year 2004 but not in fiscal year 2005.
- Fiscal year 2006 System net nonoperating revenues decreased \$106.1 million primarily because the funding mechanism for higher education changed during the fiscal year and the System no longer received a nonoperating appropriation from the state. This elimination of state appropriations accounted for a \$109.4 million decrease to other net nonoperating revenues. Capital gift revenue also decreased \$9.2 million in relation to prior year levels. Fiscal year 2005 System net nonoperating revenues increased \$4.2 million which is attributable to a variety of factors including a \$2.8 million increase in gift revenue, a \$4.4 million increase in investment income in conjunction with a \$3.7 million decrease in other nonoperating revenues. This decrease in other operating revenues is primarily attributable to a \$2.9 million decline in insurance recoveries in fiscal year 2005 in comparison to fiscal year 2004.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

- Other revenues decreased \$5.8 million in fiscal year 2006. This decrease was primarily due to a \$9.2 million decrease in capital gifts coupled with a \$3.7 million increase in capital grants. The decrease in capital gifts is attributable to the fact that CSU recognized capital gifts in fiscal year 2005 that were received for CSU Athletics capital construction projects and comparable amounts were not received for these projects in fiscal year 2006. The increase in capital grants is due to increased activity on the CSU Regional Bio-Containment Laboratory and the CSU Bio-Environmental Hazards Research Building capital construction projects in fiscal year 2006. The fiscal year 2005 increase in other revenues of \$10.0 million is primarily attributable to an \$8.6 million increase in capital gifts from the prior year. This capital gift increase is primarily attributable to the recognition of capital gifts utilized for CSU Athletics facilities projects.

Capital Assets and Debt Administration

At June 30, 2006, the System had approximately \$471.0 million invested in capital assets, net of accumulated depreciation of \$432.4 million. At June 30, 2005, the System had approximately \$455.3 million invested in capital assets, net of accumulated depreciation of \$404.3 million.

Depreciation charges were approximately \$36.7 million and \$36.4 million for the years ended June 30, 2006 and 2005, respectively.

During the fiscal year ended June 30, 2006, the System received \$1.4 million of state capital contributions for capital construction projects. During the fiscal year ended June 30, 2005, the System received no state contributions for new capital construction projects. \$2.3 million of state capital contributions related to 2004 appropriations were utilized in 2005 to complete ongoing capital projects, which primarily consisted of the CSU Pueblo Energy Performance Project.

For the fiscal year ending June 30, 2007, the System will receive state capital appropriation funding for \$16.7 million of capital construction projects including \$7.1 million for the Health, Physical Education and Recreation Building Renovation and Life Safety Phase II Upgrade at CSU Pueblo, \$3.5 million for the CSU Vet Diagnostic Medicine Center, and \$3.2 million for CSU upgrades to the Vet Teaching Hospital mechanical and fire suppression systems. The remainder of the funding is for controlled maintenance projects. \$0.4 million of these controlled maintenance projects pertain to a structural analysis project at CSU Pueblo and the remainder of the projects pertain to CSU.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

A breakdown of assets by category, net of accumulated depreciation is provided below.

Capital Assets, net of Accumulated Depreciation
(amounts expressed in thousands)

	June 30		
	2006	2005	2004
Land	\$ 9,670	9,671	9,050
Land improvements	28,975	30,195	31,244
Building and improvements	322,972	314,589	289,281
Leasehold improvements	414	461	169
Equipment	47,613	45,509	43,910
Collections	2,317	2,205	2,159
Library materials	27,947	29,451	31,331
Construction in progress	31,086	23,244	26,807
Total capital assets, net	<u>\$ 470,994</u>	<u>455,325</u>	<u>433,951</u>

The fiscal year 2006 \$15.7 million increase in net capital assets is primarily attributable to an \$8.4 million net increase to buildings and improvements, a \$7.8 million net increase to construction in progress, and a \$2.1 million net increase to equipment. The CSU University Center for the Arts Concert Hall, CSU Hughes Stadium improvements, and CSU heating plant improvements were all capitalized during fiscal year 2006.

The fiscal year 2005 \$21.4 million increase in net capital assets is primarily attributable to buildings and improvements capitalized during fiscal year 2005. The CSU Summit Resident Hall and capital assets relating to the CSU Pueblo Energy Performance Project were capitalized during fiscal year 2005.

The System had capital construction commitments outstanding of approximately \$20.0 million at June 30, 2006. Approximately \$1.6 million of this amount was for the new CSU Academic Village, \$0.7 million for the expansion of the CSU Bioenvironmental Research Building, \$12.0 million for the CSU Regional Biocontainment Laboratory and \$2.4 million for the CSU Pueblo Health, Physical Education and Recreation building project. The remaining commitments were for various small construction projects at CSU and CSU Pueblo.

The System had approximately \$125.3 million and \$131.5 million of debt outstanding at June 30, 2006 and 2005, respectively.

Summary of Debt
(amounts expressed in thousands)

	June 30		
	2006	2005	2004
Debt outstanding:			
Revenue bonds, certificates of participation	\$ 118,071	123,211	71,487
Capital lease obligations	7,232	8,313	5,146
	<u>\$ 125,303</u>	<u>131,524</u>	<u>76,633</u>

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

The System had no new bond financings during fiscal year 2006. The System completed two bond financings during fiscal year 2005.

In 2005, the CSU Research Building Revolving Fund Enterprise Bonds, Series 2005A were issued in the total par amount of approximately \$10.1 million. Proceeds of the bonds were used to finance construction of three separate research facilities on the University's Foothills Campus. The bonds mature in December 2020 and carry yields ranging from 3.25% to 5.00%.

The CSU Enterprise System Revenue Bonds, Series 2005B were issued in 2005 in the total par amount of \$45.2 million. Proceeds from this issue are being used to finance the construction, acquisition, and equipping of student housing and dining facilities and renovation of certain related parking surfaces as part of the University's New Academic Village project. The bonds mature in March 2035 and carry yields ranging from 3.50% to 5.00%.

Economic Outlook/Future of the Colorado State University System

The Colorado State University System is a group of higher education institutions in the State of Colorado run under one common leadership structure. The System receives revenues from numerous sources including students who receive a stipend from the state to cover some of their higher education expenses. In many states, this funding is appropriated directly to the institution. In Colorado, it is appropriated to the student.

The State General Fund revenue is projected on a quarterly basis by the Legislative Council and the Office of State Planning and Budgeting. The most recent projections (September 2006) from these entities estimate that the State General Fund revenue is projected to increase in fiscal year 2007 between 4.0% and 6.0%. For fiscal year 2008, the General Fund revenue used for the state's budgeting process is projected to increase 6.0%. The state's overall budgetary situation remains governed by the three constitutional budgetary provisions: The Taxpayer Bill of Rights (TABOR), the Gallagher Amendment on property taxes, and Amendment 23 requiring specified increases in state support of K-12 Education. The budgetary situation for higher education has changed with the implementation of the College Opportunity Fund in fiscal year 2006. As a result of legislation adopted in the 2004 session (S.B. 04-189), the state no longer provides direct State General Fund appropriation to the governing boards. Instead, the state provides stipends to the qualified, resident undergraduate students, and institutions receive fee for service contracts from the Colorado Commission on Higher Education for the provision of other educational services. Finally, S.B. 04-189 also allows institutions of higher education to become TABOR enterprises through this new funding mechanism. Enterprise status eliminates institutional cash funds, such as tuition, from counting against the state's TABOR limitation. In 2006, Colorado State University and Colorado State University – Pueblo had separate enterprise status designation. In 2007, the Board of Governors of the Colorado State University System will recommend a single enterprise status designation for Colorado State University - Ft. Collins and Colorado State University – Pueblo for fiscal year 2007 and future years based on the provisions of S.B. 04-189. The Legislative Audit Committee has yet to review or approve this recommendation. With this TABOR status, the cash funds collected by the System's institutions no longer count toward the state's overall revenue limit. In addition, as enterprises, the institutions can consider issuing revenue bonds backed by student fees for academic buildings. The System's qualification as an enterprise is determined each year as part of the independent financial audit, which assesses if the system meets the TABOR requirement that less than 10 percent of its revenue for the year was received from state and local grants.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

With this new financing arrangement, the Colorado State University System is authorized to receive \$73.7 million in a fee for service contract revenue and \$49.5 million in student stipends in fiscal year 2007. The \$123.2 million of anticipated fiscal year 2007 fee for service contract revenue and the student stipends represents an 8.45% increase in state support above that provided in 2006.

The state implemented the Taxpayer Bill of Rights in fiscal year 1994. The state's voters modified TABOR at the November 2005 election. The modification allowed the state to retain all collected revenues for the next five years, and reset the state's TABOR base from that point forward.

Overall enrollment at both System institutions declined 1.0% as measured in the fall 2006 census. This decline appears to be consistent with information received from other Colorado institutions, though final statewide enrollment data will not be available until later in the year. Based on early enrollment indicators from the Department of Higher Education, there has been slight enrollment increases at some institutions and it is anticipated that enrollment will rebound in calendar year 2007. Overall, the projected enrollment increase for the CSU system in the next three years should be in the 3 to 5% range.

Requests for Information

The financial report is designed to provide a general overview of the Colorado State University System's finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the attention of the Chief Financial Officer, Colorado State University System, 410 Seventeenth Street, Suite 1415, Denver, CO 80202.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Net Assets

June 30, 2006 and 2005

(Amounts expressed in thousands)

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 216,602	208,714
Student accounts receivable, net	7,083	6,413
Other accounts receivable, net	48,634	42,913
Student loans receivable, net	3,584	4,021
Inventories	6,580	6,641
Prepaid expenses	1,166	963
Total current assets	<u>283,649</u>	<u>269,665</u>
Noncurrent assets:		
Restricted cash and cash equivalents	87,486	91,650
Restricted investments	17,485	16,538
Student loans receivable, net	20,017	19,354
Other noncurrent assets	609	612
Nondepreciable capital assets:		
Land	9,670	9,671
Construction in progress	31,086	23,244
Collections	2,317	2,205
Total nondepreciable capital assets	<u>43,073</u>	<u>35,120</u>
Depreciable capital assets, net:		
Land improvements	28,975	30,195
Buildings and improvements	322,972	314,589
Leasehold improvements	414	461
Equipment	47,613	45,509
Library materials	27,947	29,451
Total depreciable capital assets (net of accumulated depreciation)	<u>427,921</u>	<u>420,205</u>
Total noncurrent assets	<u>596,591</u>	<u>583,479</u>
Total assets	<u>\$ 880,240</u>	<u>853,144</u>

COLORADO STATE UNIVERSITY SYSTEM

Statements of Net Assets

June 30, 2006 and 2005

(Amounts expressed in thousands)

Liabilities	2006	2005
	<u> </u>	<u> </u>
Current liabilities:		
Accounts payable	\$ 20,754	21,825
Accrued liabilities	53,306	43,341
Deferred revenue	18,898	17,081
Deposits held for others	3,453	3,412
Bonds payable and certificates of participation, current portion	5,765	5,182
Capital leases payable, current portion	1,288	1,163
Other long-term liabilities, current portion	3,055	2,417
Compensated absence liabilities, current portion	2,133	2,067
	<u> </u>	<u> </u>
Total current liabilities	108,652	96,488
Noncurrent liabilities:		
Bonds payable and certificates of participation	112,306	118,029
Capital leases payable	5,944	7,150
Deposits held for others	25,506	23,383
Other long-term liabilities	7,597	6,471
Compensated absence liabilities	29,402	26,594
	<u> </u>	<u> </u>
Total noncurrent liabilities	180,755	181,627
	<u> </u>	<u> </u>
Total liabilities	\$ 289,407	278,115
	<u> </u>	<u> </u>
Net Assets		
Net assets:		
Invested in capital assets, net of related debt	\$ 386,933	376,580
Restricted for nonexpendable purposes	17,882	16,678
Restricted for expendable purposes	56,496	60,091
Unrestricted	129,522	121,680
	<u> </u>	<u> </u>
Total net assets	\$ 590,833	575,029
	<u> </u>	<u> </u>

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM
COLORADO STATE UNIVERSITY FOUNDATION
(Discretely presented component unit)

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2006 and 2005

(Amounts expressed in thousands)

	2006				2005			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Assets								
Cash and cash equivalents	42	305	185	532	15	255	20	290
Investments	22,340	96,667	81,284	200,291	19,351	86,412	75,603	181,366
Receivables:								
Pledges, net of allowance	—	23,111	5,193	28,304	—	6,802	6,016	12,818
Life income trusts	—	—	182	182	—	—	176	176
Investment in equity affiliate	—	(240)	2,208	1,968	—	(111)	2,149	2,038
Property and equipment, net of accumulated depreciation	20	250	—	270	26	250	—	276
Cash surrender value of life insurance policies	62	—	111	173	60	—	102	162
Prepays and other assets	14	136	280	430	27	147	299	473
Total assets	<u>\$ 22,478</u>	<u>120,229</u>	<u>89,443</u>	<u>232,150</u>	<u>19,479</u>	<u>93,755</u>	<u>84,365</u>	<u>197,599</u>
Liabilities and Net Assets								
Accounts payable (primarily to CSU)	3	663	—	666	7	354	—	361
Other accrued liabilities	49	—	—	49	79	—	—	79
Life income agreements	600	119	302	1,021	612	133	309	1,054
Deposit held in custody for CSU	—	3,644	9,371	13,015	—	3,702	8,819	12,521
Total liabilities	<u>652</u>	<u>4,426</u>	<u>9,673</u>	<u>14,751</u>	<u>698</u>	<u>4,189</u>	<u>9,128</u>	<u>14,015</u>
Net assets:								
Unrestricted:								
Undesignated	3,146	—	—	3,146	2,348	—	—	2,348
Board designated	18,680	—	—	18,680	16,433	—	—	16,433
Total unrestricted	21,826	—	—	21,826	18,781	—	—	18,781
Temporarily restricted	—	115,803	—	115,803	—	89,566	—	89,566
Permanently restricted	—	—	79,770	79,770	—	—	75,237	75,237
Total net assets	<u>21,826</u>	<u>115,803</u>	<u>79,770</u>	<u>217,399</u>	<u>18,781</u>	<u>89,566</u>	<u>75,237</u>	<u>183,584</u>
Total liabilities and net assets	<u>\$ 22,478</u>	<u>120,229</u>	<u>89,443</u>	<u>232,150</u>	<u>19,479</u>	<u>93,755</u>	<u>84,365</u>	<u>197,599</u>

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2006 and 2005

(Amounts expressed in thousands)

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Student tuition and fees (including \$12,057 and \$11,404 of revenues pledged for bonds in 2006 and 2005, respectively, and net of scholarship allowances of \$43,266 and \$35,144 for 2006 and 2005, respectively)	\$ 203,967	143,637
State fee for service revenue	68,214	—
Grants and contracts (including \$35,299 and \$34,242 of revenues pledged for bonds in 2006 and 2005, respectively)	251,941	237,444
Sales and services of educational activities	18,022	16,906
Auxiliary enterprises (including \$77,202 and \$75,258 of revenues pledged for bonds in 2006 and 2005, respectively, and net of scholarship allowances of \$2,744 and \$4,049 for 2006 and 2005, respectively)	100,033	96,043
Other operating revenue	5,024	4,886
Total operating revenues	<u>647,201</u>	<u>498,916</u>
Operating expenses:		
Instruction	173,671	159,163
Research	151,756	143,648
Public service	70,490	64,255
Academic support	41,315	39,383
Student services	25,500	24,884
Institutional support	25,647	22,521
Operation and maintenance of plant	47,209	38,634
Scholarships and fellowships	8,155	9,169
Auxiliary enterprises	92,512	89,067
Depreciation	36,690	36,402
Other operating expenses	79	312
Total operating expenses	<u>673,024</u>	<u>627,438</u>
Operating loss	<u>(25,823)</u>	<u>(128,522)</u>
Nonoperating revenues (expenses):		
State appropriations	—	109,424
Gifts	21,388	18,558
Investment income (including \$1,060 and \$840 of revenues pledged for bonds in 2006 and 2005, respectively)	5,478	4,639
Interest expense on capital debt	(3,439)	(3,496)
Other nonoperating revenues	2,311	2,681
Net nonoperating revenues	<u>25,738</u>	<u>131,806</u>
Income (loss) before other revenues (expenses)	(85)	3,284
Other revenues (expenses):		
State capital contributions	1,387	2,285
Capital grants	5,744	2,005
Capital gifts	7,971	17,215
Payments (to)/from governing boards or other institutions	82	(131)
Additions to permanent endowments	705	339
Increase in net assets	<u>15,804</u>	<u>24,997</u>
Net assets:		
Net assets, beginning of year	<u>575,029</u>	<u>550,032</u>
Net assets, end of year	<u>\$ 590,833</u>	<u>575,029</u>

See accompanying notes to basic financial statements.

**COLORADO STATE UNIVERSITY SYSTEM
COLORADO STATE UNIVERSITY FOUNDATION**
(Discretely presented component unit)

Statements of Activities – Discretely Presented Component Unit

Years ended June 30, 2006 and 2005

(Amounts expressed in thousands)

	2006			2005				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2006	Unrestricted	Temporarily restricted	Permanently restricted	Total 2005
Support and revenue:								
Contributions	\$ 173	37,144	4,309	41,626	109	15,369	8,159	23,637
In-kind contributions	1	2,155	—	2,156	8	3,419	—	3,427
Allowance for uncollectible pledges	—	42	11	53	—	(19)	(39)	(58)
Total contributions	174	39,341	4,320	43,835	117	18,769	8,120	27,006
Net investment income	5,993	11,591	70	17,654	4,890	7,651	64	12,605
Actuarial change in value of life income agreements	(28)	(8)	(34)	(70)	(28)	—	(26)	(54)
Other changes in net assets	(142)	(29)	171	—	(663)	1,039	(376)	—
Other revenue	148	(21)	6	133	300	210	4	514
Net assets released from restrictions:								
Satisfaction of program restrictions	24,637	(24,637)	—	—	32,660	(32,660)	—	—
Total support and revenue	30,782	26,237	4,533	61,552	37,276	(4,991)	7,786	40,071
Expenses:								
Program services:								
CSU College of:								
Agricultural Sciences	1,945	—	—	1,945	1,664	—	—	1,664
Applied Human Sciences	921	—	—	921	904	—	—	904
Business	951	—	—	951	632	—	—	632
Engineering	2,188	—	—	2,188	3,465	—	—	3,465
Liberal Arts	1,878	—	—	1,878	4,814	—	—	4,814
Natural Resources	921	—	—	921	1,167	—	—	1,167
Natural Sciences	1,560	—	—	1,560	1,282	—	—	1,282
Veterinary Medicine and Biomedical Sciences	4,997	—	—	4,997	4,214	—	—	4,214
Athletics	6,893	—	—	6,893	12,254	—	—	12,254
Other CSU programs	3,879	—	—	3,879	3,124	—	—	3,124
Total program services	26,133	—	—	26,133	33,520	—	—	33,520
Support services:								
Development	—	—	—	—	—	—	—	—
Management and general	1,604	—	—	1,604	1,635	—	—	1,635
Total support services	1,604	—	—	1,604	1,635	—	—	1,635
Total expenses	27,737	—	—	27,737	35,155	—	—	35,155
Change in net assets	3,045	26,237	4,533	33,815	2,121	(4,991)	7,786	4,916
Net assets, beginning of year	18,781	89,566	75,237	183,584	16,660	94,557	67,451	178,668
Net assets, end of year	\$ 21,826	115,803	79,770	217,399	18,781	89,566	75,237	183,584

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(Amounts expressed in thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 204,739	142,478
Student loans collected	6,473	6,420
Sales of products	16,737	16,688
Sales of services	102,898	104,378
Grants and contracts	246,336	236,665
State fee for service contract	68,214	—
Other operating receipts	3,875	3,784
Cash payments:		
Scholarships disbursed	(6,032)	(10,410)
Student loans disbursed	(6,304)	(4,930)
Payments to employees	(425,148)	(413,870)
Payments to suppliers	(193,268)	(175,415)
Other operating payments	—	(25)
Net cash provided by (used in) operating activities	<u>18,520</u>	<u>(94,237)</u>
Cash flows from noncapital financing activities:		
State appropriations – noncapital	—	109,424
Gifts other than capital purposes	19,598	18,889
Agency (direct lending inflows)	89,559	88,877
Agency (direct lending outflows)	(89,559)	(88,877)
Other agency (inflows)	45,899	40,675
Other agency (outflows)	(43,177)	(38,686)
Payments from (to) governing boards or other institutions	82	(131)
Other nonoperating revenues	2,157	1,056
Net cash provided by noncapital financing activities	<u>24,559</u>	<u>131,227</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	—	60,109
State appropriations – capital	1,387	2,285
Capital grants, contracts, and gifts	11,821	15,292
Acquisition and construction of capital assets	(48,338)	(50,819)
Principal paid on capital debt	(6,327)	(5,677)
Interest on capital debt	(3,037)	(3,364)
Net cash provided by (used in) capital and related financing activities	<u>(44,494)</u>	<u>17,826</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	8,325	1,350
Purchase of investments	(8,664)	(305)
Investment earnings	5,478	4,639
Net cash provided by investing activities	<u>5,139</u>	<u>5,684</u>
Net increase in cash and cash equivalents	3,724	60,500
Cash and cash equivalents	208,714	206,265
Restricted cash	91,650	33,599
Cash and cash equivalents, beginning of the year	300,364	239,864
Cash and cash equivalents	216,602	208,714
Restricted cash	87,486	91,650
Cash and cash equivalents, end of the year	<u>\$ 304,088</u>	<u>300,364</u>

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(Amounts expressed in thousands)

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (25,823)	(128,522)
Adjustments:		
Depreciation expense	36,690	36,402
Noncash operating transactions	1,001	(1,239)
Decrease (increase) in assets:		
Receivables, net	(5,468)	3,525
Inventories and prepaids	(141)	1,221
Increase (decrease) in liabilities:		
Accounts payable	(3,288)	(575)
Accrued liabilities	9,795	(4,679)
Deferred revenue	1,811	(1,171)
Deposits held for others	12	(74)
Compensated absence liabilities	2,874	418
Other liabilities	1,057	457
Net cash provided by (used in) operating activities	\$ <u>18,520</u>	<u>(94,237)</u>
Noncash activities:		
Noncash gifts	\$ 3,335	3,928
Noncash capital leases	1,444	359
Payment of bond issuance costs	—	612

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(1) Governance and Reporting Entity

(a) Governance

The Colorado State University System (the System) is an institution of higher education of the State of Colorado. For financial reporting purposes, the System is included as part of the State of Colorado's primary government. The Board of Governors (the Board) is the governing board of the Colorado State University System. The Board consists of nine members appointed by the Governor of the State of Colorado and four nonvoting representatives from the institutions. The annual funding for construction of capital facilities of the institutions are evidence of a financial burden of the state. In addition to these financial statements, the System's financial activity is also included in the basic financial statements of the State of Colorado.

(b) Reporting Entity

The accompanying financial statements present the operations of the System. The System conducts its operations through the following two institutions:

Colorado State University – (CSU)
Colorado State University – Pueblo (CSUP)

Since CSU is the state's land grant institution, it includes the Agriculture Experiment Station, Cooperative Extension Service, and the Colorado State Forest Service. In addition, the accompanying financial statements contain the financial activity of the System offices. Unaudited financial statements are available upon request from each of the institutions.

As a higher education institution of the State of Colorado, the income of the System is generally exempt from income taxes under Section 115 of the Internal Revenue Code. However, income unrelated to the exempt purpose of the System would be subject to tax under Section 511(a)(2)(B) of the Internal Revenue Code. The System had no material unrelated business income for the years ended June 30, 2006 and 2005.

(c) Discretely Presented Component Unit

The System follows Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*. This Statement provides guidance to determine whether certain organizations for which the System is not financially accountable should be reported as component units based on the nature and significance of their relationship with the System. The Colorado State University Foundation (the Foundation) has been determined to be a component unit of the Colorado State University System and has, therefore, been included as a discretely presented component unit in the System financial reporting entity. The Colorado State University Research Foundation and the Colorado State University – Pueblo Foundation do not meet the criteria to be reported as component units.

The Foundation is a legally separate, tax-exempt entity that was established to receive, manage, and invest philanthropic gifts on behalf of CSU. The majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the university by the donors. Because

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

these restricted resources held by the Foundation can only be used by, or for the benefit of, CSU, the Foundation is considered a component unit of the System and is discretely presented in the CSU System 2006 and 2005 financial statements.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the System's financial reporting entity for these differences, as permitted by GASB Statement No. 39.

The Foundation was established in 1970 as an independent 501(c)(3) organization. The primary purpose of the Foundation is to receive, manage, and invest philanthropic gifts to CSU. The officers of the Foundation are appointed by the Board of Directors. The Board of Directors consists of five voting members. Four voting members are community members elected by the Board and the fifth voting member is the President of the Foundation. The three ex-officio, nonvoting members of the Board serve by virtue of title: President of Colorado State University, the CSU Vice President for Advancement and Strategic Initiatives, and the CSU Vice President for Administrative Services. No person who is an employee of CSU is eligible to serve as an officer of the Foundation or as a voting Board member.

The major source for the Foundation's revenue is gifts. Of the \$61,552,000 in revenue for the 2005-2006 fiscal year, gifts accounted for \$43,782,000. Of the \$40,071,000 in revenue for the 2005 fiscal year, gifts accounted for \$27,064,000. The remaining revenue was primarily due to earnings on investments.

The support provided by the Foundation to CSU is intended to assist in the promotion, development, and enhancement of the facilities and educational programs and opportunities of the faculty, students, and alumni of CSU. Additionally, the Foundation provides receipts to contributors and invests philanthropic gifts. Approximately \$26,133,000 and \$33,520,000 was transferred to CSU for the years ended June 30, 2006 and 2005, respectively, in pursuit of the above-stated objectives.

Endowments and the related expendable accounts of CSU are held by the Colorado State University Foundation for investment safekeeping. These funds amounted to \$13,015,000 and \$12,521,000 as of June 30, 2006 and 2005, respectively, and are reported as deposits held in custody for CSU in the financial statements of the Colorado State University Foundation.

Audited financial statements for the Foundation are available at 410 University Services Center, Fort Collins, CO 80523.

(2) Basis of Presentation

The System has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, with regard to the application of FASB pronouncements applicable to its proprietary operations. In accordance with the provisions of GASB Statement No. 20, the System has applied those FASB statements and interpretations issued on or before November 30, 1989. The System has elected not to apply FASB statements and interpretations issued after November 30, 1989.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

During the fiscal year ended June 30, 2006, the System implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting requirements for insurance recoveries.

Any effort to reconcile this report with presentations made for other purposes, such as data submitted with the legislative budget request of the System, must take into consideration the differences in the basis of accounting and other requirements for the presentation of such information.

(3) Measurement Focus, Basis of Accounting, and Summary of Significant Accounting Policies

For financial reporting purposes, the System is considered a special-purpose government engaged only in business-type activities. Accordingly, the basic financial statements of the System have been presented using the economic resources measurement focus and the accrual basis of accounting. Presentation is also in accordance with the State of Colorado Higher Education Accounting Standard No. 17. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-agency transactions have been eliminated.

(a) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the State Treasurer, and all highly liquid investments with an original maturity when purchased of three months or less.

(b) Investments

Investments are accounted for at fair value, which is determined based on quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

(c) Inventories

Inventories, consisting of livestock; facilities and housing maintenance supplies; medical, pharmaceutical, and laboratory supplies; food supplies; books; and soft-goods; are stated at the lower of cost or market. Cost is determined either on the first-in; first-out; average-cost; specific-identification; or on the retail method. Livestock inventories have been recorded at lower of cost or market using unit livestock costing methods and estimated animal weights.

(d) Restricted Cash and Cash Equivalents and Restricted Investments

Assets are reported as restricted when restrictions on asset use change the nature or normal understanding of the availability of the assets. For the System, examples of restricted cash and cash equivalents and restricted investments include cash and cash equivalents required as bond reserves, unexpended bond proceeds, and investments held by endowment funds.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(e) Capital Assets

Land, land improvements, buildings and improvements, leasehold improvements, library materials, collections, and equipment are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Capitalization limits vary at the two institutions ranging from \$5,000 to \$50,000. At CSU, library materials are valued at average acquisition cost. At CSUP, library materials are valued at actual cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 70 years for buildings, 10 to 20 years for land improvements, 5 to 10 years for library books, 3 to 12 years for equipment, and 8 to 40 years for leasehold improvements. Depreciation expense was not allocated among functional categories.

Renovations to buildings and other improvements that significantly increase the value and extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to expense. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project.

During capital construction, interest cost is capitalized from the date of the tax-exempt borrowing to the date the qualifying asset is ready for use. Once the capital asset is ready for use, the net cost of interest on the tax-exempt borrowing is capitalized and added to the acquisition cost of the asset.

The System has capitalized collections such as works of art and historical artifacts. The nature of certain collections is such that the value and usefulness of the collection does not change over time. These collections have not been depreciated in the System's financial statements.

Assets under capital leases are recorded at the present value of the future minimum lease payments and are amortized using the straight-line method over the estimated useful life of the asset being leased.

The System evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Capital assets are generally considered impaired if both a decline in service utility occurs and is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the System are measured using the method that best reflects the diminished service utility of the capital asset. If evidence is available to demonstrate that impairment will be temporary, the capital asset is not written down.

(f) Compensated Absence Liabilities

The amount of compensated absence liabilities that are recorded as a current liability on the statements of net assets are the higher of the historical annual amount of separation payouts or the known amount of separation payouts. The remaining balance of the compensated absence liabilities is recorded as a long-term liability on the statements of net assets.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(g) Net Assets

Net assets of the System are classified as follows:

Invested in capital assets, net of related debt – This represents the total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted net assets – nonexpendable – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing future income, which may either be expended or added to principal.

Restricted net assets – expendable – Restricted expendable net assets include resources in which the System is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or debt agreements.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state fee for service reserves, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the System and may be used to meet current expenses for any purposes. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff. Unrestricted net assets may be designated by actions of the Board.

Discretely presented component unit – Net assets of the Colorado State University Foundation and the changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets are subject to donor-imposed restrictions that they be maintained permanently by the Foundation.

(h) Classification of Revenues

In fiscal year 2006, the College Opportunity Fund legislation was implemented and state support was delivered to the System as operating revenue in the form of payment for fee for service contracts with the state. In addition, the state provided stipends to students which were then used to pay tuition which is also recorded as operating revenue. In fiscal year 2005, state support was provided in the form of a state appropriation which was reported as nonoperating revenue.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

The System has classified revenues as either operating or nonoperating according to the following criteria:

Operating revenues consist of services and sales related to teaching, research, and public service, along with auxiliary activities of student, faculty, and staff support. These revenues include: 1) tuition and fees from students (after reduction for scholarship allowances provided with institutional funds); 2) grants and contracts from federal, state, and local governments and private sources including businesses, individuals, and foundations; 3) state fee for service revenues; 4) sales and services of the Veterinary Teaching Hospital and Diagnostic Laboratory; and 5) fees for goods and services of auxiliary operations such as student housing and dining, student center retail stores, health services, and athletics. Revenues from exchange transactions are recognized when they are earned and measurable.

Operating expenses represent the full cost of providing the services and goods associated with operating revenues. These expenses are accrued when incurred and measurable and reported using functional classifications.

Nonoperating revenues consist primarily of gifts from grantors and donors, and investment income that are relied upon and budgeted for support of operating expenses. In fiscal year 2005, nonoperating revenues included subsidies in the form of state appropriations.

Other revenues include revenues from state capital construction and controlled maintenance appropriations, capital gifts, and grants primarily designated for capital purposes. Other expenses include payments to other governing boards or other institutions.

(i) *Summer Session Revenue and Related Expenses*

The System prorates the summer session revenues and expenses based on the number of days between the first day of the summer session and the last day of the summer session which falls before or after June 30.

(j) *Application of Restricted and Unrestricted Resources*

This application is made on a case-by-case basis by management depending on overall program requirements and resources. Generally, management applies restricted resources then unrestricted resources when both restricted and unrestricted resources are available to pay an expense.

(k) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(l) Reclassifications

Certain 2005 amounts have been reclassified to conform with the 2006 basic financial statement presentation.

(4) Cash and Cash Equivalents

The System deposits cash and cash equivalents with the State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2006, the System had cash on deposit with the State Treasurer of \$298,341,000, which represented approximately 6.3% of the total \$4,758,800,000 of deposits in the State Treasurer's Pool (Pool). As of June 30, 2005, the System had cash on deposit with the State Treasurer of \$300,927,000, which represented approximately 7.4% of the value of all deposits in the State Treasurer's Pool.

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year end. On the basis of the System's participation in the Pool, the System reports as an increase or decrease in cash and cash equivalents its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

As of June 30, 2006 and 2005, respectively, the System had \$298,341,000 and \$300,927,000 on deposit with the State Treasurer. The difference between the System's cash carrying value and on deposit with the State Treasurer and balances at other banks was due to outstanding checks and deposits in transit. Interest earned on deposits with the state for the fiscal years ended June 30, 2006 and 2005 was approximately \$10,527,000 and \$6,754,000, respectively. These amounts reflect increases in cash and cash equivalents and increases or decreases in investment income as a result of recording unrealized gains or losses on deposits with the State Treasurer. The unrealized losses on deposits with the State Treasurer for the fiscal years ended June 30, 2006 and 2005, respectively, were \$3,941,000 and \$783,000 for cash and cash equivalents and \$3,158,000 and \$2,228,000 for investment income. Custodial credit risk classifications for amounts held by the State Treasurer are not available at the System level. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

At June 30, 2006 and 2005, the System's cash not on deposit with the State Treasurer was \$5,747,000 and \$(563,000), respectively. Cash included petty cash/change funds and bank account balances of \$118,000 and \$5,629,000 as of June 30, 2006 and \$126,000 and \$(690,000) as of June 30, 2005.

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2006, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies, which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2006, approximately 85.5% of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for \$2,964,000 of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality which indicates that the issuer has strong capacity to pay principal and interest when due. As of June 30, 2005, approximately 83% of investments of the Treasurer's Pool were subject to credit quality risk reporting. These investments are rated from upper medium to the highest quality which indicates the issuer has strong capability to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2006, the weighted average maturity of investments in the Treasurer's Pool is 0.10 years for commercial paper and money market funds (32% of the pool), 1.30 years for U.S. government securities (41% of the Pool), 2.20 years for asset backed securities (17% of the pool), and 2.40 years for corporate bonds (10% of the Pool). As of June 30, 2005, the weighted average maturity of investments in the Treasurer's Pool was 0.10 years for 26% of the Pool, 2.10 years for 47% of the Pool, 2.30 years for 12% of the Pool, and 2.60 years for 15% of the Pool.

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2006 or in fiscal year 2005.

Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2006.

(5) Restricted Investments

As of June 30, 2006 and 2005, System's restricted investments had a fair value of \$17,485,000 and \$16,538,000, respectively. Investment earnings for the fiscal years 2006 and 2005 were \$123,000 and \$81,000, respectively.

No investment types were purchased and sold during the years that were not owned as of June 30, 2006 and 2005. The System only invests in U.S. Treasury securities, which are federal guaranteed investments, as required by state law. The System also has investments held by CSUF that are invested in their Long Term Endowment Pool, which are not evidenced by securities that exist in physical or book form.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

The following details each major category of the System's investments at fair value as of June 30, 2006 and 2005:

	June 30	
	<u>2006</u>	<u>2005</u>
U.S. Treasury obligations	\$ 4,470,000	4,017,000
Investments held by CSUF in long-term endowment pool:		
Corporate equities	1,268,000	1,314,000
Mutual funds	6,219,000	7,498,000
Hedge funds	3,564,000	3,585,000
Other investments	1,964,000	124,000
	<u>13,015,000</u>	<u>12,521,000</u>
Total investments	<u>\$ 17,485,000</u>	<u>16,538,000</u>

(a) Credit Quality Risk

At June 30, 2006 and June 30, 2005, the System had debt securities in the following credit risk categories:

	June 30	
	<u>2006</u>	<u>2005</u>
Money market mutual funds:		
Aaa	\$ <u>72,000</u>	<u>147,000</u>
Bond mutual funds:		
Aaa	\$ 526,000	531,000
Aa	66,000	—
A	28,000	24,000
Baa	28,000	41,000
Ba	10,000	204,000
B	—	833,000
Caa	—	277,000
P1	254,000	543,000
Below P1	28,000	35,000
Not rated	—	13,000
	<u>\$ 940,000</u>	<u>2,501,000</u>

The Colorado State University Foundation investment policy is utilized to manage credit risk relating to the CSU System assets invested in the Colorado State University Foundation long-term endowment pool. This policy specifies that the dollar weighted average of the fixed income portfolio should be investment grade quality or above.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(b) Interest Rate Risk

At June 30, 2006, the following System investments were subject to interest rate risk:

<u>Type of investment</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>	<u>Duration (in years)</u>
U.S. Treasury obligations	\$ 4,470,000	0.202	
Investments held by CSUF in long-term endowment pool:			
Bond mutual funds:			
PIMCO – Low Duration Fund	<u>940,000</u>	1.000	2.540
Total investments subject to interest rate risk	\$ <u><u>5,410,000</u></u>		

At June 30, 2005, the following System investments were subject to interest rate risk:

<u>Type of investment</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>	<u>Duration (in years)</u>
U.S. Treasury obligations	\$ 4,017,000	0.202	
Investments held by CSUF in long-term endowment pool:			
Bond mutual funds:			
PIMCO – Low Duration Fund	1,181,000	1.800	2.970
Primus – High Yield Fund	<u>1,320,000</u>		
Total investments subject to interest rate risk	\$ <u><u>6,518,000</u></u>		

The Colorado State University Foundation investment policy is utilized to manage interest rate risk relating to the System amounts invested in the Foundation long-term endowment pool. This policy specifies that the portfolio's weighted average maturity is to be 10 years or less at all times and that the fixed income portion of the portfolio is to be targeted at 20% of the total portfolio with an acceptable range being between 15-25%.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

The System's U.S. Treasury obligations are invested in accordance with Colorado Revised Statute 23-32-104. This statute requires these investments relating to the Colorado State University land grant fund to be invested in specific types of investments which includes U.S. Treasury obligations. The System does not have a specific policy relating to the management of interest rate risk.

Discretely presented component unit – As of June 30, 2006, investments for the Foundation consisted of various securities carried at fair market value as determined by quoted market prices on national exchanges. Alternative investments are valued at the net asset value (NAV) provided by the investment manager. This NAV is computed based on dealer quotations on the fair market value of the underlying securities, the majority of which are traded on national exchanges. Alternative investments are comprised of two investment types: absolute return and long/short investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long/short investments is to outperform the S&P 500 Index over the long term with less volatility.

The following details each major category of the Foundation's investments at fair market value as of June 30, 2006 and 2005:

	June 30	
	2006	2005
Cash and cash equivalents subject to investment management direction	\$ 1,105,000	2,129,000
Small cap equities	9,335,000	9,429,000
Large cap equities	—	61,000
Mutual funds:		
Alternative investments	53,827,000	51,861,000
Large cap equities	49,015,000	47,354,000
Fixed income	38,957,000	36,233,000
International equities	31,123,000	22,888,000
Micro cap equities	10,050,000	9,608,000
Other investments	6,709,000	1,803,000
Student-managed investments	170,000	—
	\$ 200,291,000	181,366,000

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

Net investment income of the Foundation consisted of the following for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Interest, dividends, and other income	\$ 3,002,000	3,394,000
Net unrealized and realized gains on investments	16,809,000	10,731,000
Less investment management fees	<u>(1,007,000)</u>	<u>(735,000)</u>
	18,804,000	13,390,000
Less income on deposits held in custody for CSU	<u>(1,150,000)</u>	<u>(785,000)</u>
	<u>\$ 17,654,000</u>	<u>12,605,000</u>

(6) Accounts Receivable

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying statements of net assets.

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Student accounts receivable	\$ 10,826,000	9,685,000
Less allowance for doubtful accounts	<u>(3,743,000)</u>	<u>(3,272,000)</u>
Student accounts receivable, net	<u>7,083,000</u>	<u>6,413,000</u>
Student loans receivable	25,645,000	25,528,000
Less allowance for doubtful accounts	<u>(2,044,000)</u>	<u>(2,153,000)</u>
Student loans receivable, net	<u>23,601,000</u>	<u>23,375,000</u>
Other accounts receivable:		
Sponsored programs	42,537,000	38,230,000
Commercial receivables	2,669,000	2,049,000
Emergency firefighting receivables	1,169,000	1,173,000
Conferences and summer programs	599,000	984,000
Insurance trust fund	222,000	368,000
Receivables from Foundation	804,000	353,000
Athletics	410,000	340,000
Vendor credits	37,000	89,000
Other	<u>2,467,000</u>	<u>1,440,000</u>
Total other accounts receivable	50,914,000	45,026,000
Less allowance for doubtful accounts	<u>(2,280,000)</u>	<u>(2,113,000)</u>
Other accounts receivable, net	<u>48,634,000</u>	<u>42,913,000</u>
Total accounts receivable, net	<u>\$ 79,318,000</u>	<u>72,701,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

Discretely presented component unit – As of June 30, 2006 and 2005, the Foundation’s pledges receivable consisted of the following:

	June 30	
	<u>2006</u>	<u>2005</u>
Receivables due in less than one year	\$ 4,841,000	3,329,000
Receivables due in one to five years	10,760,000	11,215,000
Receivables due in more than five years	19,453,000	—
	<u>35,054,000</u>	<u>14,544,000</u>
Less allowance for uncollectible pledges	(220,000)	(291,000)
Less present value discounting	<u>(6,530,000)</u>	<u>(1,435,000)</u>
	<u>\$ 28,304,000</u>	<u>12,818,000</u>

Unconditional promises to give (pledges receivable) are from foundations, corporations, and individuals. The discount factors utilized in the present value calculation are the five-year U.S. Treasury bond rates as of June 30 in the fiscal year the commitment is made.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(7) Capital Assets

Following are the changes in capital assets for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2006</u>
Nondepreciable capital assets:					
Land	\$ 9,671,000	—	(1,000)	—	9,670,000
Construction in progress	23,244,000	33,750,000	—	(25,908,000)	31,086,000
Collections	2,205,000	112,000	—	—	2,317,000
	<u>35,120,000</u>	<u>33,862,000</u>	<u>(1,000)</u>	<u>(25,908,000)</u>	<u>43,073,000</u>
Depreciable capital assets:					
Land improvements	49,076,000	696,000	—	368,000	50,140,000
Buildings and improvements	520,077,000	626,000	(1,800,000)	25,079,000	543,982,000
Leasehold improvements	838,000	—	—	—	838,000
Equipment	173,863,000	15,227,000	(8,388,000)	461,000	181,163,000
Library materials	80,694,000	3,797,000	(276,000)	—	84,215,000
	<u>824,548,000</u>	<u>20,346,000</u>	<u>(10,464,000)</u>	<u>25,908,000</u>	<u>860,338,000</u>
Less accumulated depreciation:					
Land improvements	18,881,000	2,284,000	—	—	21,165,000
Buildings and improvements	205,488,000	15,803,000	(281,000)	—	221,010,000
Leasehold improvements	377,000	47,000	—	—	424,000
Equipment	128,354,000	13,255,000	(8,059,000)	—	133,550,000
Library materials	51,243,000	5,301,000	(276,000)	—	56,268,000
	<u>404,343,000</u>	<u>36,690,000</u>	<u>(8,616,000)</u>	<u>—</u>	<u>432,417,000</u>
Net depreciable capital assets	<u>420,205,000</u>	<u>(16,344,000)</u>	<u>(1,848,000)</u>	<u>25,908,000</u>	<u>427,921,000</u>
Total capital assets, net	\$ <u>455,325,000</u>	<u>17,518,000</u>	<u>(1,849,000)</u>	<u>—</u>	<u>470,994,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

Following are the changes in capital assets for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2005</u>
Nondepreciable capital assets:					
Land	\$ 9,050,000	615,000	(75,000)	81,000	9,671,000
Construction in progress	26,807,000	33,354,000	—	(36,917,000)	23,244,000
Collections	2,159,000	46,000	—	—	2,205,000
Total nondepreciable capital assets	<u>38,016,000</u>	<u>34,015,000</u>	<u>(75,000)</u>	<u>(36,836,000)</u>	<u>35,120,000</u>
Depreciable capital assets:					
Land improvements	47,953,000	46,000	—	1,077,000	49,076,000
Buildings and improvements	481,153,000	6,644,000	(1,563,000)	33,843,000	520,077,000
Leasehold improvements	512,000	326,000	—	—	838,000
Equipment	166,135,000	14,032,000	(8,220,000)	1,916,000	173,863,000
Library materials	77,786,000	3,385,000	(477,000)	—	80,694,000
Total depreciable capital assets	<u>773,539,000</u>	<u>24,433,000</u>	<u>(10,260,000)</u>	<u>36,836,000</u>	<u>824,548,000</u>
Less accumulated depreciation:					
Land improvements	16,709,000	2,218,000	(46,000)	—	18,881,000
Buildings and improvements	191,872,000	15,074,000	(1,458,000)	—	205,488,000
Leasehold improvements	343,000	34,000	—	—	377,000
Equipment	122,225,000	13,811,000	(7,682,000)	—	128,354,000
Library materials	46,455,000	5,265,000	(477,000)	—	51,243,000
Total accumulated depreciation	<u>377,604,000</u>	<u>36,402,000</u>	<u>(9,663,000)</u>	<u>—</u>	<u>404,343,000</u>
Net depreciable capital assets	<u>395,935,000</u>	<u>(11,969,000)</u>	<u>(597,000)</u>	<u>36,836,000</u>	<u>420,205,000</u>
Total capital assets, net	<u>\$ 433,951,000</u>	<u>22,046,000</u>	<u>(672,000)</u>	<u>—</u>	<u>455,325,000</u>

Interest expense capitalized, net of related interest income for the System, was \$373,000 and \$150,000 for the years ended June 30, 2006 and 2005, respectively.

In September of 1997, CSU purchased the old Fort Collins High School building to renovate and house the Department of Music, Theatre, and Dance and to provide display space for artwork, historic costumes, textiles, and natural history collections. In fiscal year 2002, the System received notification from the state that due to budget constraints, state funding was rescinded for the CSU University Center for the Arts building renovation of the Old Fort Collins High School. As a result of this loss in funding CSU halted further construction on the project. At that time the interior of the building had been demolished and the project was approximately 3% complete. CSU considered this construction stoppage to be temporary and expected to resume construction once the state funding situation improved. The University Center for the Arts project has remained a high priority on the University's Physical Development Plan. In fiscal year

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

2006 funding was identified to resume the project, state spending authority was obtained; and construction will commence on the project in fiscal year 2007. At June 30, 2006 the carrying value for the University Center for the Arts Building was \$4,700,000.

(8) Accrued Liabilities

The current accrued liabilities balances as of June 30, 2006 and 2005 were comprised of:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Accrued payroll and benefits	\$ 44,429,000	40,176,000
Emergency firefighting accrual	7,090,000	—
Accrued interest payable	1,653,000	1,136,000
Other liabilities	134,000	2,029,000
	<u>\$ 53,306,000</u>	<u>43,341,000</u>

(9) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Amounts due within one year</u>
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	\$ 123,211,000	—	(5,140,000)	118,071,000	5,765,000
Capital leases payable	8,313,000	1,444,000	(2,525,000)	7,232,000	1,288,000
Total bonds and capital leases	131,524,000	1,444,000	(7,665,000)	125,303,000	7,053,000
Other liabilities:					
Compensated absences	28,661,000	2,909,000	(35,000)	31,535,000	2,133,000
Other	8,888,000	18,612,000	(16,848,000)	10,652,000	3,055,000
Total long-term liabilities	<u>\$ 169,073,000</u>	<u>22,965,000</u>	<u>(24,548,000)</u>	<u>167,490,000</u>	<u>12,241,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Amounts due within one year</u>
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	\$ 71,487,000	56,296,000	(4,572,000)	123,211,000	5,182,000
Capital leases payable	<u>5,146,000</u>	<u>4,646,000</u>	<u>(1,479,000)</u>	<u>8,313,000</u>	<u>1,163,000</u>
Total bonds and capital leases	76,633,000	60,942,000	(6,051,000)	131,524,000	6,345,000
Other liabilities:					
Compensated absences	28,243,000	552,000	(134,000)	28,661,000	2,067,000
Other	<u>8,093,000</u>	<u>2,808,000</u>	<u>(2,013,000)</u>	<u>8,888,000</u>	<u>2,417,000</u>
Total long-term liabilities	\$ <u>112,969,000</u>	<u>64,302,000</u>	<u>(8,198,000)</u>	<u>169,073,000</u>	<u>10,829,000</u>

(10) Revenue Bonds and Certificates of Participation (COPs)

The revenue bonds consist of multiple issues to finance acquisition, construction, repair, and equipping of various auxiliary and research facilities of the System. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the System to redeem at various dates, portions of the outstanding revenue bonds at prices varying from 100% to 101% of the principal amount of the revenue bonds redeemed. Payment of the principal and interest on the bonds is insured by various financial guarantee insurance policies.

The 2005A Projects and 2005B Improvement Project Bonds were issued during the 2005 fiscal year. The bonds are for the following projects:

2005A Projects: Research Building Revolving Fund issued bonds in the amount of \$10,045,000. Proceeds will be used to defray all or a portion of the costs of (i) constructing, acquiring, and equipping an addition to the existing Atmospheric Science Complex on the University's Foothills Campus, (ii) constructing, acquiring, and equipping a regional biocontainment laboratory on the University's Foothills Campus, and (iii) renovating and converting an existing Antropod-Borne and Infections Disease Lab (AIDL) Annex to an Animal Biosafety Level 3 Facility and constructing an adjacent small animal support facility, all located on the University's Foothills Campus.

2005B Improvement Project: Auxiliary Enterprises issued bonds in the amount of \$45,200,000. Proceeds from the sale will be used to finance the construction, acquisition, and equipping of student housing and dining facilities and the renovation of certain related surface parking. This facility constitutes one of the phases of the 2001 Long Range Student Housing Plan. The project involves the demolition of the existing Ellis Hall and related dining facilities and construction of new housing and dining facilities.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2006 and 2005 is detailed below.

Revenue bonds and COPs payable consisted of the following at June 30, 2006 and 2005:

	<u>Interest range</u>	<u>2006</u>	<u>2005</u>
Colorado State University:			
Colorado State University Student Sports Recreational Facilities Bonds of 1998, issued in the original amount of \$2,785,000 and mature in varying annual amounts to April 2017	3.80% – 5.13%	\$ 1,890,000	2,020,000
Colorado State University Auxiliary Facilities Bonds of 1996, issued in the original amount of \$17,380,000 and mature in varying annual amounts to March 2008	3.80 – 5.60	2,435,000	4,250,000
Colorado State University Auxiliary Facilities Bonds of 1997, issued in the original amount of \$13,420,000 and mature in varying annual amounts to March 2017	3.85 – 5.13	11,650,000	11,925,000
Colorado State University Research Building and Revolving Fund Bonds of 1997, issued in the original amount of \$4,420,000 and mature in varying annual amounts to December 2008	4.00 – 4.60	1,530,000	1,995,000
Colorado State University Research Building and Revolving Fund Bonds of 2001, issued in the original amount of \$6,965,000 and mature in varying annual amounts to December 2010	3.85 – 4.30	3,855,000	4,535,000
Colorado State University Auxiliary Facilities Bonds of 2003 A, issued in the original amount of \$15,615,000 and mature in varying annual amounts to March 2017	2.50 – 5.25	13,650,000	14,330,000

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

	<u>Interest range</u>	<u>2006</u>	<u>2005</u>
Colorado State University Auxiliary Facilities Bonds of 2003 B, issued in the original amount of \$20,535,000 and mature in varying annual amounts to March 2035	2.50% – 5.00%	\$ 20,160,000	20,535,000
Colorado State University Research Building and Revolving Fund Bonds of 2005 A, issued in the original amount of \$10,045,000 and mature in varying annual amounts to December 2020	3.25 – 5.00	10,045,000	10,045,000
Colorado State University Auxiliary Facilities Bonds of 2005 B, issued in the original amount of \$45,200,000 and mature in varying annual amounts to March 2035	3.50 – 5.00	45,200,000	45,200,000
Bond premium		<u>1,466,000</u>	<u>1,551,000</u>
Total CSU revenue bonds		<u>111,881,000</u>	<u>116,386,000</u>
Series 1997 Certificates of Participation:			
Colorado State University has a lease purchase agreement funded by issuance of certificates of participation (COPS) for finance or refinancing of construction, other acquisition and equipping of buildings with a value of \$4,670,000. The COPS bear interest ranging from 4.25% to 5.35%, payable semi-annually with a final maturity in 2018.	4.25 – 5.35	<u>3,420,000</u>	<u>3,625,000</u>
Total CSU certificates of participation		<u>3,420,000</u>	<u>3,625,000</u>
Total CSU revenue bonds and certificates of participation		<u>\$ 115,301,000</u>	<u>120,011,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

	<u>Interest range</u>	<u>2006</u>	<u>2005</u>
Colorado State University – Pueblo Recreational Facilities and Occiato Student Center Bonds of 2003, issued in the original amount of \$3,625,000 and mature in varying annual amounts to August 2011	2.00% – 3.25%	\$ 2,770,000	3,200,000
Total CSUP revenue bonds		<u>2,770,000</u>	<u>3,200,000</u>
System total revenue bonds and certificates of participation		\$ <u>118,071,000</u>	<u>123,211,000</u>

The scheduled maturities of the revenue bonds and certificates of participation (COPs) are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total payments</u>
2007	\$ 5,765,000	5,172,000	10,937,000
2008	5,910,000	4,933,000	10,843,000
2009	6,405,000	4,691,000	11,096,000
2010	5,900,000	4,436,000	10,336,000
2011	6,105,000	4,197,000	10,302,000
2012-2016	25,835,000	17,649,000	43,484,000
2017-2021	17,545,000	11,994,000	29,539,000
2022-2026	12,400,000	8,812,000	21,212,000
2027-2031	15,535,000	5,713,000	21,248,000
2032-2036	<u>15,205,000</u>	<u>1,808,000</u>	<u>17,013,000</u>
Total debt service maturities	116,605,000	\$ <u>69,405,000</u>	<u>186,010,000</u>
Unamortized premium	<u>1,466,000</u>		
Total	\$ <u>118,071,000</u>		

The CSU Research Building Revolving Fund (RBRF) revenue bonds are secured by a pledge of net revenues of the RBRF Enterprise. These revenues include all revenues derived by CSU from the operation of the pledged facilities including allocated recoveries on research contracts and grants performed under the auspices of CSU. See the Pledged Revenues and Related Expenses note 12 for more information regarding these pledged revenues.

The CSU Auxiliary Facilities Bonds are secured by a pledge of all net revenues derived at CSU from the operation of the auxiliary pledged facilities, special fees assessed to students or any other persons, and investment earnings on the balances in the applicable Revenue Fund. See the Pledged Revenues and Related Expense note 12 for more information regarding these pledged revenues.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

The CSUP Series 2003 revenue bonds are secured by the net pledged revenues derived from student fees and net revenues from the operation of CSUP auxiliary facilities, including CSU Pueblo's student housing facilities, and student center facilities. See the Pledged Revenues and Related Expense note 12 for more information regarding these pledged revenues.

The Revenue Bonds are special limited obligations of the Board of Governors and do not constitute a general obligation of the board or the System.

(11) Defeased Obligations

The System had no defeased obligations outstanding for the years ended June 30, 2006 and 2005.

(12) Pledged Revenues and Related Expenses

CSU and CSU-P are required to pledge certain revenues and report related expenses in accordance with the various bond resolutions. The pledged revenues and related expenses were as follows:

CSU Research Building Revolving Fund Enterprise Revenue Bonds:

	June 30	
	<u>2006</u>	<u>2005</u>
Operating revenues – pledged auxiliary revenues	\$ 3,603,000	3,202,000
Operating expenses	<u>1,959,000</u>	<u>2,049,000</u>
Pledged revenues over operating expenses	1,644,000	1,153,000
Net nonoperating expenses	(232,000)	(150,000)
Other expenses and transfers	<u>(8,616,000)</u>	<u>(691,000)</u>
Net increase (decrease)	<u>\$ (7,204,000)</u>	<u>312,000</u>

The debt covenants for the above bonds require indirect cost recoveries from research-related grants to be pledged. The pledged revenue reported above includes only \$2,270,000 and \$1,806,000 in such indirect cost recoveries for fiscal years ending June 30, 2006 and 2005, respectively, which is the amount of actual indirect cost recoveries used to support the related bond activity. The remaining amount of indirect cost recoveries required to be pledged is \$35,299,000 and \$34,242,000 for the fiscal years ended June 30, 2006 and 2005, respectively.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

CSU Enterprise System Refunding and Improvement Revenue Bonds (including Auxiliary Facilities Refunding and Improvement Revenue Bonds and Student Sports Recreational Facilities Revenue Bonds):

	<u>2006</u>	<u>2005</u>
Operating revenues – pledged auxiliary revenues	\$ 76,713,000	74,466,000
Operating expenses	<u>73,957,000</u>	<u>71,077,000</u>
Pledged revenues over operating expenses	2,756,000	3,389,000
Net nonoperating expenses	(1,440,000)	(1,689,000)
Other revenues and transfers	<u>166,000</u>	<u>154,000</u>
Net increase	\$ <u><u>1,482,000</u></u>	<u><u>1,854,000</u></u>

Colorado State University-Pueblo Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues – pledged auxiliary revenues	\$ 8,822,000	8,805,000
Operating expenses	<u>6,954,000</u>	<u>5,642,000</u>
Pledged revenue over operating expenses	1,868,000	3,163,000
Net nonoperating revenues	—	—
Transfers	<u>(942,000)</u>	<u>(1,499,000)</u>
Net increase	\$ <u><u>926,000</u></u>	<u><u>1,664,000</u></u>

The revenue bonds contain provisions to establish and maintain reasonable fees, rates, and other charges to ensure gross revenues are sufficient for debt service coverage. The System is also required to comply with various other covenants while the bonds are outstanding. Managements of the two institutions believe the universities have met all debt service coverage ratios and have complied with all bond covenants.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(13) Capital Lease Obligations

The following is a schedule of the System's future minimum lease payments for obligations under capital leases for each of the five subsequent fiscal years and for five-year increments thereafter.

	<u>Total</u>
Fiscal year ending June 30:	
2007	\$ 1,601,000
2008	1,438,000
2009	1,066,000
2010	810,000
2011	697,000
2012-2016	2,520,000
2017-2021	<u>510,000</u>
Minimum future lease payments	8,642,000
Less amount representing interest	<u>1,410,000</u>
Present value of minimum lease payments	\$ <u><u>7,232,000</u></u>

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2006 and 2005, respectively, the System had capital lease obligations in effect with capitalized asset costs of \$12,679,000 and \$13,840,000; accumulated depreciation of \$2,579,000 and \$2,687,000; and related outstanding liabilities of \$7,232,000 and \$8,313,000.

(14) Operating Leases

The following is a schedule of the System's aggregate minimum rental commitments for operating leases of real and personal property for each of the five subsequent fiscal years.

	<u>Future minimum obligations for operating leases</u>
Fiscal year ending June 30:	
2007	\$ 743,000
2008	570,000
2009	476,000
2010	361,000
2011	<u>—</u>
Total	\$ <u><u>2,150,000</u></u>

Rent expense was \$1,016,000 and \$1,065,000 for fiscal years 2006 and 2005, respectively.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(15) Net Assets

The System is subject to multiple constraints, including those imposed by Colorado Constitutional and related legislative actions, State of Colorado statutes, and bond covenants in conjunction with statutory provisions on pledging revenues of the auxiliary facilities.

Student loan money is expended according to external restrictions imposed by the program funding sources. The federal programs are administered according to Department of Education Blue Book guidelines. The state match money is restricted by the Colorado Commission on Higher Education policy for student loan programs. The amounts restricted are \$25,958,000 and \$26,475,000 and are reported as restricted net assets – expendable on the financial statements as of June 30, 2006 and 2005, respectively.

The auxiliary facilities included in the CSU Student and Faculty Services have outstanding debt that is supported by pledges of revenue earned by the facilities. Under the bond covenants and statutes in effect at the time of debt issuance, any excess reserves earned by the auxiliary facilities are restricted for use by the auxiliary operations. The amounts so restricted of \$17,323,000 and \$16,049,000 are reported as restricted net assets expendable on the financial statements as of June 30, 2006 and 2005, respectively.

Colorado Revised Statute 23-31-135 requires a support fee to be annually assessed to cooperative state or accountable students in the System's professional veterinary medicine program. The statute specifies that this fee must be credited to a reserve account and used for renovation projects and for the acquisition or replacement of equipment. As of June 30, 2006 and 2005, this reserve had net assets of \$1,479,000 and \$1,432,000, respectively. These amounts were reported as restricted expendable net assets on the statements of net assets.

Total restricted net assets were as follows:

	2006	2005
Restricted for nonexpendable purposes:		
Scholarships, research, and other	\$ 13,250,000	12,546,000
Federal Land Grant Act Account – nonexpendable	4,632,000	4,132,000
Total	\$ 17,882,000	16,678,000
Restricted for expendable purposes:		
Federal Land Grant Act Income Account – expendable	\$ 4,224,000	5,579,000
Student loans	25,958,000	26,475,000
Gifts	1,989,000	2,915,000
Bond reserves	1,300,000	1,300,000
Auxiliary pledged net assets	17,323,000	16,049,000
Research Building Revolving Fund	3,789,000	5,819,000
Equipment reserve for Vet Med	1,479,000	1,432,000
Other	434,000	522,000
Total	\$ 56,496,000	60,091,000

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

Although other amounts reflected in unrestricted net assets are not externally restricted, they may be internally designated by the System's administration for various purposes.

In regard to the net assets of the Foundation, temporarily restricted net assets and the income earned on permanently restricted net assets, consisting of endowment funds to be held indefinitely, are available to support CSU by providing funds for student scholarships, capital improvements, research, and other educational purposes and activities. Also, as of June 30, 2006 and 2005, the Foundation's board has designated \$18,680,000 and \$16,433,000, respectively, of the unrestricted net assets to be used for Board-designated endowments.

(16) Commitments

Outstanding purchase order commitments against future funds not reflected in the financial statements at June 30, 2006 were \$47,689,000 for the System. These outstanding purchase order commitments included System capital construction commitments of approximately \$19,964,000. Approximately \$11,960,000 of the capital construction commitments were for the CSU Regional Biocontainment Laboratory, \$2,386,000 for the CSUP HPER Building renovation, \$1,617,000 for the new CSU Academic Village, \$679,000 for the expansion of the CSU Bioenvironmental Research Building, and the remaining commitments are for other small construction projects at CSU. Of the remaining outstanding purchase order commitments, \$20,530,000 were related to CSU-sponsored contracts and grants.

In addition to purchase order commitments, the System had contracted obligations of \$24,154,000 at June 30, 2006 related to employment hiring incentives and shared costs on long-term federal revenue contracts. The hiring incentives arise in recruiting faculty and research scientists whereby the System commits to pay for various laboratory remodeling, equipment, and other costs that are important to the person in accepting the position offer. This obligation is binding on the System upon acceptance of the employment offer. The shared cost obligations arise in connection with federal contracts and grants in which the System agrees to pay for certain costs beyond what would otherwise be reimbursed by the sponsor under the contract or grant. Although the System can exercise cancellation clauses to avoid these shared cost obligations, the System has not used that option to avoid such obligations, and such costs are considered highly probable in the future. In both cases, settlement of the obligation involves payment to third parties, generally within three years.

Outstanding commitments at June 30, 2006 were:

Purchase order commitments	\$ 47,689,000
Shared cost obligations on long-term revenue contracts	16,628,000
Obligations under accepted employment offers	<u>7,526,000</u>
Total	<u>\$ 71,843,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(17) Employment Benefits

Employees of the System, eligible for retirement benefits, participate in one of three retirement plans. Eligible student employees participate in a student retirement plan, which is funded solely by contributions from the student employees. All other eligible employees of the System participate in one of two additional plans, the Public Employees' Retirement Association (PERA) plan or an optional defined contribution plan.

The System's total payroll for the fiscal years ended June 30, 2006 and 2005 was \$389,547,000 and \$377,627,000, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was \$144,050,000, \$187,986,000, and \$6,315,000, respectively, for the fiscal year ended June 30, 2006 and \$128,942,000, \$177,675,000, and \$5,001,000, respectively, for the fiscal year ended June 30, 2005. The remaining employees were not eligible for participation in any of the System's plans.

(a) *PERA Defined Benefit Pension Plan*

Plan Description

Eligible System employees participate in PERA. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple-employer plan administered by PERA. PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan, as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing to PERA of Colorado, P.O. Box 5800, Denver, Colorado 80217 or by calling PERA at 303-832-9550 or 1-800-729-PERA (7372), or by visiting www.copera.org.

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the state and school portions of the trust as a single division.

Plan members vest after five years of service, and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Persons hired on or after July 1, 2005, (except plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of twelve consecutive months of service credit. Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be disabled. PERA contains benefit provisions for both short and long-term disability.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

If a member dies before retirement, his/her spouse or their eligible children under age 18 (23 if full-time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Annual "gross covered wages" subject to PERA are the gross earnings less any reduction in pay to offset employee contributions to benefit plans established under Section 125 of the Internal Revenue Code.

Employees contribute 8% of their gross covered wages to an individual account with the plan. During fiscal year 2005-06 and 2004-05, the System contributed 10.15% of employees' gross covered wages to PERA, of which 1.02% of the total contribution was allocated to the Health Care Trust Fund. Beginning January 1, 2006, in addition to the 10.15% contributed on employees' gross covered wages, the System remitted an Amortization Equalization Disbursement (AED) payment, discussed below, of 0.5% of employees', including annuitant retirees, gross covered wages.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5% of salary beginning January 1, 2006, another 0.5% of salary in 2007, and subsequent year increases of 0.4% of salary until the additional payment reaches 3.0% in 2012.

In the 2006 legislative session, along with other significant provisions affecting the plan, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by 1½% point through 2013 resulting in a cumulative increase of three percentage points. The SAED will be terminated when each division's trust fund reaches 100% funding. For state employers, each year's 1½% point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED.

The System's contributions to PERA for the fiscal years ended June 30, 2006, 2005, and 2004 were \$14,978,000, \$13,088,000, and \$12,090,000, respectively. These contributions were equal to the contribution requirement.

(b) Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and institutions of the state offer a 403b or 401(a) plan. Members who contribute to any of these plans also receive the state match.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(c) *Defined Contribution Pension Plan*

Under the optional defined contribution plan, eligible faculty, administrative professionals, post doctoral fellows, and veterinary interns of the System have the option of selecting a defined contribution plan as an alternative to PERA. Three vendor choices are offered at Colorado State University through the defined contribution plan: Teachers Insurance and Annuity Association (TIAA), Variable Annuity Insurance Corporation (VALIC), and Fidelity Investments/MetLife. Eligible faculty and staff at Colorado State University Pueblo do not have the Fidelity Investments/MetLife option available. The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 through 24-54.5-107 C.R.S). The Colorado State University plan was adopted by the Board in December 1992 and the Colorado State University Pueblo plan was adopted in April 1993. The defined contribution retirement plan is a qualified plan under Section 401(A) of the IRC. Colorado State University and Colorado State University Pueblo are the administrators of the plan. All participants contribute the required 8% of eligible salary. As required, CSU provides a matching contribution of 9% of eligible salary for all “permanent” appointees (those with regular and special appointments at half-time or greater) and for temporary appointees with appointments of half-time or greater for the second and subsequent consecutive year(s). CSUP provides a matching contribution of 11.1%, as required, of eligible salary for all nonstudent employees, including those employees at less than half-time and nonstudent temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the authorized vendors. The System’s aggregate contribution to the above three vendors was equal to 8.7% of covered payroll or \$16,363,000 for the fiscal year ended June 30, 2006 and 8.7% of covered payroll or \$15,522,000 for the fiscal year ended June 30, 2005. The employee aggregate contribution to the above three vendors was equal to 8.0% of covered payroll or \$15,039,000 for the fiscal year ended June 30, 2006 and 8.0% of covered payroll or \$14,214,000 for the fiscal year ended June 30, 2005.

A federal retirement program covers some employees employed by the Cooperative Extension Service at Colorado State University. The System’s contribution to this plan for the fiscal years ended June 30, 2006 and 2005 was \$214,000 and \$228,000, respectively.

(d) *Student Employee Retirement Program*

Eligible student employees contribute 7.5% of covered payroll to the student employee retirement program (SERP). The SERP is funded entirely through employee contributions with no employer match. The SERP is a mandatory plan for all student employees who are enrolled at CSU but are not classified as a half-time student or greater. The SERP was established pursuant to state statute (24-54.6-101 through 24-54.6-106 C.R.S.) as a mandatory nonqualified plan under section 403(B) of the IRC in lieu of mandatory old age, survivors, and disability insurance (OASDI) coverage. The plan administrator is the “Committee”. This Committee is comprised of thirteen individuals representing participating state institutions of higher education and one representative appointed by the Colorado student association. All contributions are vested immediately and are participant-directed within the funds available through the one vendor for the SERP, TIAA-CREF. The contribution by student employees for the fiscal years ended June 30, 2006 and 2005 was \$474,000 and \$375,000, respectively. The System is not liable for any matching contributions to the student employee retirement program.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(e) Health Insurance Programs

The System's contribution to the various health insurance programs was \$6,899,000 and \$5,787,000 for the fiscal years ended June 30, 2006 and 2005, respectively.

(18) Risk Financing and Insurance-Related Activities

During the year ended June 30, 2004, CSU began the process of withdrawing from the State Risk Pool in order to become self-insured for workers' compensation claims. On July 1, 2004, CSU purchased workers' compensation insurance for one month's coverage, and on August 1, 2004, became self-insured. CSU carries excess insurance for claims over \$500,000 per occurrence.

As of September 1, 2004, CSU withdrew from the State Risk Pool for property insurance. For property claims, CSU has excess policy coverage for claims exceeding more than \$100,000 per occurrence. CSU self-insures for claims less than \$100,000 per occurrence and a \$1,000 deductible per occurrence is paid by the University department incurring the claim.

Effective July 1, 2005, CSU became self-insured for liability insurance. CSU carries excess public liability insurance for claims exceeding \$500,000 per occurrence, except for claims arising out of employment practices. In this case, CSU is liable for the first \$1,000,000 and purchases insurance to cover up to \$5,000,000 per occurrence.

In addition to the above, CSU is self-insured for various other risks of loss. At CSU, seven additional separate accounts currently make up the Insurance Trust self-insured program: healthcare, dental, long-term disability, short-term disability, post-retirement healthcare subsidy, the umbrella plan for retirees, and an unallocated reserve fund. CSU contracts claims processing and other day-to-day operations of the self-funded benefit plans to various third-party administrators. Most of the program funding is derived from premiums paid by benefit plan participants. Post-retirement healthcare subsidy is funded by CSU contributions. The self-funded benefit plans are fully self-insured except for healthcare coverage, which is reinsured for plan expenses above \$200,000 in claims per covered employee per year. The unallocated reserve account is a general contingency fund for miscellaneous and unanticipated expenses of the other six accounts.

The amount of settlements did not exceed insurance coverage for fiscal years 2005 and 2006.

Exempt employees may select from various benefit plans. Exempt employees may elect to make certain contributions in the form of a pretax salary reduction.

The above Insurance Trust self-insurance programs had estimated claim liabilities of \$6,328,000 and \$5,821,000 at June 30, 2006 and 2005, respectively, which includes incurred but not reported claims (IBNR) along with known claims at year end. These estimates are made through a combination of analyzing payments in early months of the subsequent year, historical trends, and industry guidelines.

In addition to these claims, workers' compensation had estimated claim liabilities of \$3,891,000 and \$4,415,000, at June 30, 2006 and 2005, respectively. Liability self-insurance had estimated claim liabilities of \$1,523,000 and \$6,000, at June 30, 2006 and 2005, respectively. Property self-insurance had no estimated claim liabilities at June 30, 2006 and 2005. These estimates are based on current data, historical trends, and industry guidelines.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

The changes in the balance of claim liabilities were as follows:

	<u>2006</u>	<u>2005</u>
Claim liabilities, beginning of year	\$ 10,242,000	9,322,000
Incurred claims (including IBNR)	18,951,000	16,166,000
Claim payments	<u>(17,451,000)</u>	<u>(15,246,000)</u>
Claim liabilities, end of year	<u>\$ 11,742,000</u>	<u>10,242,000</u>

(19) Postemployment Healthcare and Life Insurance Benefits

(a) PERA Post Employment Healthcare Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2006, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under the age 65 and not eligible for Medicare), and it was reduced by 5% for each year of service fewer than 20.

The Health Care Trust Fund was maintained by an employer's contribution of 1.02% of covered salary. The System paid \$1,469,000 into this fund during fiscal year 2006 and \$1,315,000 during fiscal year 2005. Monthly premium costs for participants depend on the healthcare plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2005, there were 41,080 enrollees in the plan.

(b) University PERA Retiree Medical Plan Cost Subsidy

In accordance with University policy, University faculty and nonclassified staff participating in the PERA retirement plan who retire from the University with at least ten years of University service are eligible to receive a subsidy from the University to cover all or a part of their out-of-pocket premium expenses for coverage under any one of the medical plans sponsored by PERA. The amount of the subsidy for eligible retirees is their out-of-pocket expenses for retiree only coverage or an amount equal to the premium for the lowest cost plan available to active faculty and nonclassified staff, whichever is lesser.

This plan is pay-as-you-go funded. The average number of beneficiaries of this subsidy was 468 and 465 for fiscal years 2006 and 2005, respectively. The total cost to the University was \$966,000 and \$892,000, for fiscal years 2006 and 2005, respectively.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(c) *Postretirement Healthcare Premium Refund*

CSU's post retirement healthcare premium refund was established by the authority of the Board for retirees covered under the Defined Contribution Plan for Retirement (DCP). For eligible retirees, CSU pays a healthcare premium refund of the lesser of \$200 per month or the actual cost of the retiree's (not including dependents) health insurance. DCP participants include employees who were hired after March 1, 1993 who had less than one year of participation in PERA or employees with such previous participation in PERA who elect to enroll in the DCP at the time of appointment. Retirees become eligible for this benefit at age 55 with 20 years of service or age 60 with 5 years of service. Benefits are prorated for lesser years of service.

For fiscal years 2006 and 2005, funding for the health care premium refund was provided wholly by CSU through actuarially required contributions of 1% of covered participant's payroll. CSU's program is advance funded and contributions into the program totaled \$1,665,000 and \$1,578,000 for the years ended June 30, 2006 and 2005, respectively. The amount of restricted cash and cash equivalents available for these benefits was \$17,101,000 and \$15,221,000 for the years ended June 30, 2006 and 2005, respectively. Actuarial assumptions used to determine funding requirements include an annual investment return of 4.0%, for fiscal years 2006 and 2005, annual salary increases of 4%, and annual inflation of 3% for increase in starting salary. Noneconomic assumptions include rates of retirement, nonretirement termination, and mortality. Retirement and nonretirement rates were based on plan experience. Actuarial accrued liability was \$15,708,000 and \$14,295,000 for the years ended June 30, 2006 and 2005, respectively, and the unfunded actuarial accrued liability for the benefit according to the actuarial-cost method as stated above was \$0 for the years ended June 30, 2006 and 2005.

Total amounts paid by CSU to retirees for these healthcare subsidies were \$383,000 and \$304,000 for 2006 and 2005, respectively. As of June 30, 2006 and 2005, 196 and 175 former employees, respectively, were qualified to receive such benefits.

(d) *Life Insurance Program*

During fiscal year 2006, PERA provided access to a group decreasing term life insurance plan offered by Unum Provident in which 41,180 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 13,375 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

(20) *Compensated Absence Liability*

System employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated liability of compensated absences for which employees are vested as of June 30, 2006 and 2005 was \$31,535,000 and \$28,661,000, respectively.

Overall, expenses increased for the fiscal years ended June 30, 2006 and 2005 by \$2,874,000 and \$418,000, respectively, for the estimated compensated absence liabilities.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(21) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2006 and 2005, CSU participated in the federal government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While CSU helps students obtain these loans, the university is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers.

The gross amounts of Direct Loans disbursed during the fiscal years ended June 30, 2006 and 2005 were \$89,559,000 and \$88,877,000, respectively.

(22) Scholarship Allowance

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2006 were as follows:

	<u>2006</u>		
	<u>Tuition and fees</u>	<u>Auxiliary revenues</u>	<u>Total</u>
Gross revenue	\$ 247,233,000	102,777,000	350,010,000
Scholarship allowances:			
Federal	12,612,000	1,008,000	13,620,000
State	6,854,000	473,000	7,327,000
Private	189,000	66,000	255,000
Institutional	23,611,000	1,197,000	24,808,000
Total allowances	<u>43,266,000</u>	<u>2,744,000</u>	<u>46,010,000</u>
Net revenue	<u>\$ 203,967,000</u>	<u>100,033,000</u>	<u>304,000,000</u>

Tuition, fees and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2005 were as follows:

	<u>2005</u>		
	<u>Tuition and fees</u>	<u>Auxiliary revenues</u>	<u>Total</u>
Gross revenue	\$ 178,781,000	100,092,000	278,873,000
Scholarship allowances:			
Federal	11,508,000	1,587,000	13,095,000
State	5,714,000	553,000	6,267,000
Private	154,000	89,000	243,000
Institutional	17,768,000	1,820,000	19,588,000
Total allowances	<u>35,144,000</u>	<u>4,049,000</u>	<u>39,193,000</u>
Net revenue	<u>\$ 143,637,000</u>	<u>96,043,000</u>	<u>239,680,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(23) System Foundations and Endowments

As discussed in note 1(c), the Colorado State University Foundation was incorporated into the System's financial reporting entity during fiscal year 2004 as a result of adopting GASB Statement No. 39. The Colorado State University Research Foundation (CSURF) and the Colorado State University – Pueblo Foundation (CSUP Foundation) did not meet the requirements of GASB Statement No. 39 to be incorporated into the System's financial reporting entity.

(a) Colorado State University Research Foundation

CSURF is a private, not-for-profit Colorado corporation established in 1941 to aid and assist the institutions governed by the Board of the System in their research and educational efforts. CSURF officers are appointed annually by the Board of Directors. The Board of Directors consists of five voting members and two nonvoting members. No person who is an employee of CSU or CSUP is eligible to serve as an officer of CSURF or as a voting member of the Board.

The major sources of CSURF revenues are royalties, rents, management fees, licensing fees, and administration fees. The support provided by CSURF to the universities includes patent and licensing management, equipment leasing, municipal lease administration, debt financing through mortgage debt service, and land acquisition, development, and management. During the years ended June 30, 2006 and 2005, royalty revenues equaled \$1,070,000 and \$1,255,000, respectively, and expenses were \$613,000 and \$765,000, respectively.

At June 30, 2006, CSURF debt to provide buildings for use by the universities was \$3,986,000.

At June 30, 2006, the assets of CSURF consisted of:

Cash and current assets	\$	1,456,000
Property and equipment		7,706,000
Other assets		8,018,000
Total assets	\$	<u>17,180,000</u>

At June 30, 2005, CSURF debt to provide buildings for use by the universities was \$5,539,000.

At June 30, 2005, the assets of CSURF consisted of:

Cash and current assets	\$	1,396,000
Property and equipment		7,666,000
Other assets		10,497,000
Total assets	\$	<u>19,559,000</u>

Audited financial statements of CSURF are available at 410 University Services Center, P.O. Box 483, Fort Collins, CO 80522.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(b) Colorado State University – Pueblo Foundation

CSUP Foundation was established in 1966 as an independent 501(c)(3) nonprofit corporation. The CSUP Foundation was formed to advance and assist in the development, growth, and operation of CSUP. Twenty-seven directors of the CSUP Foundation are elected by members of the CSUP Foundation, one officer of CSUP, and one member of the Board of Governors serve as nonvoting, ex-officio members.

CSUP Foundation recorded \$1,572,000 and \$1,555,000 in transfers of gifts and other assets to CSUP during fiscal year 2006 and 2005, respectively. During the same periods, CSUP provided \$31,000 and \$19,000, respectively, in in-kind support to CSUP Foundation for 2006 and 2005. Further, CSUP did not incur any expenses on behalf of CSUP Foundation during the fiscal years ended June 30, 2006 and 2005.

At June 30, 2006, the assets of CSUP Foundation consisted of:

Cash	\$	331,000
Investments		16,101,000
Property and equipment, net		40,000
Other assets		4,693,000
Total assets	\$	<u>21,165,000</u>

At June 30, 2005, the assets of CSUP Foundation consisted of:

Cash	\$	425,000
Investments		16,179,000
Property and equipment, net		5,000
Other assets		4,459,000
Total assets	\$	<u>21,068,000</u>

CSUP Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property, and fundraising activities. CSUP Foundation had \$130,000 and \$140,000 in outstanding liabilities as of June 30, 2006 and 2005, respectively.

Audited financial statements may be obtained from CSUP's Foundation office at 2200 Bonforte Boulevard, Pueblo, CO 81001-4901.

(c) CSUP Board-Designated Funds

CSUP manages two board-designated funds. These funds' assets and activity are reported as part of the System. Both funds retain 20% of earnings each year to build the corpus of the fund and transfer 80% of the annual earnings to CSUP as designated by the Board. The first board-designated fund was established in 1994 from the proceeds of land sales in the Walking Stick Development immediately west of the campus. The sale of excess land adjacent to the university campus provides resources that support the academic mission of CSUP. To date, CSUP has sold four parcels of land with the proceeds from the sales being placed in a board-designated fund.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

The Walking Stick Fund assets at June 30, 2006 consisted of:

Cash	\$	1,099,000
Land		124,000
Due from other funds		—
Total assets	\$	<u>1,223,000</u>

The Walking Stick Fund assets at June 30, 2005 consisted of:

Cash	\$	1,096,000
Land		124,000
Due from other funds		18,000
Total assets	\$	<u>1,238,000</u>

On June 30, 2000, CSUP sold the KTSC-TV television license and certain related assets. The proceeds of the sale have been placed in a board-designated fund to support the maintenance of the Buell Communication Center building, telecommunications equipment associated with the Mass Communications program of CSUP, and scholarships.

The KTSC Fund assets at June 30, 2006 consisted of:

Cash	\$	2,472,000
Due from other funds		170,000
Total assets	\$	<u>2,642,000</u>

The KTSC Fund assets at June 30, 2005 consisted of:

Cash	\$	2,370,000
Due from other funds		195,000
Total assets	\$	<u>2,565,000</u>

(24) State Support

In fiscal year 2006 state support for higher education and the Colorado State University System changed with the implementation of the College Opportunity Fund. As a result of this legislation, which was adopted in S.B. 04-189 passed in the 2004 state legislative session, the state no longer provides a direct state general fund appropriation to the System. Instead, state support is provided to the System in the form of fee for service contracts with the state for the delivery of special programs, graduate programs, and high cost/high demand programs. In fiscal year 2006 the System received \$68,214,000 in state fee for service contract revenue. State support was also provided to the System in the form of student tuition stipends provided to students by the state College Opportunity Fund. In fiscal year 2006 \$45,406,000 of stipends were provided to students attending classes at Colorado State University and Colorado State University-Pueblo.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

In fiscal year 2005 the Colorado State Legislature established spending authority to the Board of the System in its annual Long Appropriations Bill and other special bills. Appropriated funds included an amount from the State of Colorado's General Fund of \$109,424,000 as well as certain cash funds. Cash funds included tuition, certain fees, and certain other revenue sources.

For the fiscal year ended June 30, 2005, appropriated expenditures were within the authorized spending authority. The System had total appropriations, actual appropriated revenues, and actual appropriated expenses of \$305,723,000, \$305,225,000, and \$266,189,000, respectively, for the year ended June 30, 2005.

All other revenues and expenses reported by the System in fiscal year 2005 represented nonappropriated funds and were excluded from the annual Long Appropriations Bill and other special bills. Nonappropriated funds included certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

(25) Contingencies

Contingencies include those in which the System is a defendant in several lawsuits including various claims related to activities or employees of the System. The System believes that final settlement of matters not covered by insurance will not materially or adversely affect its financial condition or operations.

The System receives significant financial awards from federal and state agencies in the form of grants. Expenditures of funds under those programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the System. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition or operations of the System.



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Basic Financial Statements Performed
in Accordance With *Government Auditing Standards***

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, and its discretely presented component unit, as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated October 13, 2006, which included a reference to the reports of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Colorado State University Foundation (the Foundation), were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the System in the findings and recommendations section of this report dated October 13, 2006.

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Colorado State University System Board of Governors, the Colorado State University System Board of Governors' Audit Committee, and the Colorado State University System's management and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 13, 2006



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

October 13, 2006

Members of Legislative Audit Committee:

We have audited the basic financial statements of the Colorado State University System (the System) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. Under our professional standards, we are providing you with information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We have a responsibility to conduct our audit in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, but not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the basic financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit of the financial statements does not include examining the effectiveness of internal control and does not provide assurance on internal control. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting.

Significant Accounting Policies

The significant accounting policies used by the System are described in note 3 to the basic financial statements. As discussed in note 2, the System implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, in 2006. This statement established accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting requirements for insurance recoveries. As a result of implementing this statement, the system added disclosures related to a temporary impairment of the University Center for the Arts building.

Unusual Transactions

We noted no unusual transactions entered into by the System, which were both significant and unusual, and of which, under professional standards we are required to inform you, or transactions for which there is a lack of authoritative guidance.

Management Judgments and Accounting Estimates

The preparation of the basic financial statements requires management of the System to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The significant accounting estimates included in the System's basic financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by the System, incurred but not reported self-insured liabilities, and accrued compensated absences. We evaluated the key factors and assumptions in determining that these estimates are reasonable in relation to the basic financial statements taken as a whole.

Significant Audit Adjustments

In connection with our audit of the System's financial statements, we have not identified any significant financial misstatements requiring adjustment by System management.

Passed Adjustments

In connection with our audit of the System's basic financial statements, we have discussed with management an audit adjustment that has not been accounted for in the basic financial statements as of and for the year ended June 30, 2006. The adjustment would have had a \$250,000 effect on net assets. We have reported this adjustment to management on a Schedule of Passed Audit Adjustments and have received written representation from management that management believes this adjustment is immaterial. Page 84 includes a copy of the schedule that has been provided to, and discussed with, management.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the System's basic financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management's Discussion and Analysis. We have, however, read the other information included in the System's report and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Disagreements With Management

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the System's basic financial statements.

Consultation With Other Accountants

To the best of our knowledge, management has neither consulted with nor obtained opinions, written or oral, from other independent accountants during the past year that are subject to the requirements of AU 625, *Reports on the Application of Accounting Principles*.

Major Issues Discussed With Management Prior to Appointment

We discussed a variety of matters, including the application of accounting principles and auditing standards, with management prior to appointment as the System’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

Material Written Communications

Management has been provided copies of the following material written communications between management and us:

- (1) Engagement letter;
- (2) Management representation letter;
- (3) Management letter (included in this report).

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationships between our firm and the System and provide confirmation that we are independent accountants with respect to the System. We are not aware of any independence-related relationships between our firm and the System.

Confirmation of Audit Independence

We hereby confirm that as of October 13, 2006, we are independent accountants with respect to the System under all relevant professional and regulatory standards.

* * * * *

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Board of Governors, the Audit Committee, and the System’s management and is not intended to be and should not be used by anyone other than these specified parties. This report is not intended for general use, circulation, or publication and should not be published, circulated, reproduced, or used for any purpose without our prior written permission in each specific instance. However, this report is a matter of public record upon release by the Legislative Audit Committee.

Very truly yours,

KPMG LLP

COLORADO STATE UNIVERSITY SYSTEM

Schedule of Passed Audit Adjustments

Year ended June 30, 2006

Adj No.	Description	Adjustments on financial statement captions							
		Change in net assets unadjusted audit differences arising in			Balance sheet		Balance sheet		Noncurrent liabilities
		Current period	Prior period	Total	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities	
1	Gift Revenue Notes Payable <i>To reclass amount received from the CSU - Pueblo Foundation from Gift Revenue to Notes Payable</i>	\$ 250,000	\$ --	\$ 250,000	\$ --	\$ --	\$ --	\$ (250,000)	
	Total	\$ 250,000	\$ --	\$ 250,000	\$ --	\$ --	\$ --	\$ (250,000)	



KPMG LLP
Suite 2700
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Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the years then ended June 30, 2006 and 2005, and have issued our report thereon dated October 13, 2006. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the reports of other auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply with the terms, covenants, provisions, or conditions of the respective Authorizing Bond Resolutions and the Official Statements (collectively, bond resolutions) insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with the respective bond resolutions discussed above, a calculation of each bond's earnings requirement is shown on pages 86 through 90.

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Board of Governors, the Audit Committee, and the System's management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 13, 2006

COLORADO STATE UNIVERSITY SYSTEM
Revenue Bonds' Earnings Requirements Schedules
June 30, 2006

Colorado State University (CSU) Research Building Revolving Fund Enterprise Revenue Bonds

The following information is presented in accordance with the bond resolutions of the 1997, 2001, and 2005A Series Research Building Revolving Fund Enterprise Revenue Bonds.

For the purposes of determining compliance with the bond resolution, earnings are computed as follows:

Auxiliary revenues	\$	3,603,447
Add interest from the Research Building Revolving Fund		121,527
Net auxiliary revenues		3,724,974
Indirect cost recoveries not credited to bond fund		35,298,815
Total pledged revenue		39,023,789
Operating expenses		1,959,319
Add back:		
Noncapital plant facilities expenses		(179,400)
Depreciation expense		(55,711)
Net income to meet requirement under the bond resolution	\$	37,299,581
Net income required under the bond resolution:		
Current year principal and interest payments	\$	1,792,975
Minimum earnings ratio required by bond resolution and parity obligation		150%
Net income required under the bond resolution	\$	2,689,463

The earnings requirement shown above exceeds the required amount by the bond resolution and parity obligations. Per the bond resolution, pledged revenues include to the extent necessary, amounts accruing to CSU from indirect cost recoveries on research contracts and grants performed under the auspices of CSU within all facilities of CSU.

CSU Enterprise System Revenue and Refunding Bonds

The following information is presented in accordance with the bond resolutions of the Enterprise System Refunding and Improvement Revenue Bonds (including Auxiliary Facilities Refunding and Improvement Revenue Bonds and Student Sports Recreational Facilities Revenue Bonds). Below are calculations of the earnings requirement for meeting the following bond resolutions: a) CSU Enterprise System Refunding and Revenue Bonds, Series 2003A, 2003B, and 2005B which reports the earnings of the entire Enterprise System net of the revenues and expenses earned and expensed between the Auxiliary Facilities and the Student Sports Recreational Facilities; b) Auxiliary Facilities Revenue Bonds, Series 1996 and 1997; and c) Student Sports Recreational Facilities Revenue Bonds, Series 1998.

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM
Revenue Bonds' Earnings Requirements Schedules
June 30, 2006

- a) The bond resolutions require that earnings be calculated after the payment of the bond maturities for the prior year of the Auxiliary Facilities and the Student Sports Recreational Facilities bonds. For the purposes of determining compliance with the bond resolution, earnings for CSU Enterprise System are computed as follows:

Auxiliary revenues	\$	76,712,404
Add:		
Investment income from investment funds		802,738
Transferable interest income from plant funds		256,765
		77,771,907
Less old series bond obligations and new bonds operating expenses:		
Operating expenses		73,956,815
Less plant facilities expenses		(1,907,464)
Less depreciation expense		(3,309,214)
Less excluded equipment expenditures		(209,125)
Less compensated absences adjustment		(191,484)
		68,339,528
Principal and interest payments on old bond series		3,154,433
		71,493,961
Net income to meet requirement under the bond resolution	\$	6,277,946
Net income required under the bond resolution:		
Current year principal and interest payments	\$	4,060,981
Minimum earnings ratio required by bond resolution		100%
Net income required under the bond resolution	\$	4,060,981

The net income for earnings requirement shown above exceeds the required amount.

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM
Revenue Bonds' Earnings Requirements Schedules
June 30, 2006

(b) For the purposes of determining compliance with the bond resolution, earnings for the Auxiliary Facilities are computed as follows:

Auxiliary revenues		\$ 72,487,507
Add:		
Investment income from investment funds		760,563
Transferable interest income from plant funds		146,398
		73,394,468
Unrestricted expenses		65,620,791
Less:		
Excluded equipment expenditures		(187,940)
Compensated absences adjustment		(151,267)
		65,281,584
Net income to meet requirement under the bond resolution		\$ 8,112,884
Net income required under the bond resolution:		
Current year principal and interest payments	\$	2,923,900
Minimum earnings ratio required by bond resolution		125%
Net income required under the bond resolution	\$	3,654,875

The net income for earnings requirement shown above exceeds the required amount.

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM
Revenue Bonds' Earnings Requirements Schedules
June 30, 2006

c) For the purposes of determining compliance with the bond resolution, earnings for the Student Sports Recreational Facilities are computed as follows:

Auxiliary revenues	\$	4,224,897
Add:		
Investment income from investment funds		42,175
Transferable interest income from plant funds		110,367
		4,377,439
Unrestricted expenses		3,119,345
Less:		
Excluded equipment expenditures		(21,185)
Compensated absences adjustment		(40,217)
		3,057,943
Net income to meet requirement under the bond resolution	\$	1,319,496
Net income required under the bond resolution:		
Current year principal and interest payments	\$	230,533
Minimum earnings ratio required by bond resolution		125%
Net income required under the bond resolution	\$	288,166

The net income for earnings requirement shown above exceeds the required amount.

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM
Revenue Bonds' Earnings Requirements Schedules
June 30, 2006

Colorado State University – Pueblo (CSUP) Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds

The following information is presented in accordance with the 2003 Series CSUP Auxiliary Facility Enterprise Refunding and Improvement Revenue Bonds. Determination of debt service coverage, as specified in the bond resolutions, requires certain adjustments from amounts reported in accordance with accounting principles generally accepted in the United States of America. The minimum excess requirements are computed as 125% of the combined principal and interest payments on the Series 2003 bonds due during the fiscal year.

Gross revenue	\$	8,821,867
Less general operating expenses		(6,954,047)
Available net revenue		1,867,820
Debt service requirement		506,263
		125%
Minimum excess requirement		632,829
Excess of available net revenue over minimum excess requirement	\$	1,234,991

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM
State-Funded Student Financial Assistance Programs

Introduction
Year ended June 30, 2006

Introduction

Colorado State University System (the System) comprises two state-supported institutions of higher education:

- Colorado State University (CSU) located in Fort Collins
- Colorado State University – Pueblo (CSUP) located in Pueblo.

The financial and compliance audit of the State-funded student financial assistance programs at the System for the fiscal year ended June 30, 2006 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education (CCHE) Financial Aid Policy, adopted in April 2002. The state student financial assistance programs were examined simultaneously with the federal aid programs for the year ended June 30, 2006.

State-Funded Student Financial Assistance Programs

Institutional participation in the various State-funded student financial assistance programs is illustrated as follows:

<u>State-Funded Student Assistance Program</u>	<u>CSU</u>	<u>CSUP</u>
Colorado Leverage Education Assistance Program	X	X
Colorado Student Grant Program	X	X
Colorado Work-Study Program	X	X
Merit Award Program	X	X
Perkins and Health Professionals Student Loans Matching Program	X	X
Governor's Opportunity Scholarship	X	X

The State-funded student financial assistance awards made by the institutions during fiscal years 2006 and 2005 and total State-funded matching funds transferred to Perkins Student Loan Fund were as follows:

	<u>Fiscal year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
State-Funded Student Financial Assistance Awards:		
Colorado State University	\$ 6,650,000	7,010,000
Colorado State University – Pueblo	2,961,000	3,026,000
Perkins and Health Professionals Student Loans Matching Program:		
Colorado State University	1,000	42,000
Colorado State University – Pueblo	—	36,000

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2006

The Director of Financial Aid of each institution is responsible for administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the institution in federal and State financial aid programs. The responsibilities of each institution's controller for general ledger accounting, payments, and collections are also of assistance to financial aid directors in the financial management of the programs.

During the fiscal year ended June 30, 2006, the System obtained authorizations to award federal student financial aid funds of approximately \$1,095,000 in the Supplemental Educational Opportunity Grant program, \$1,493,000 in the College Work-Study program, and \$0 of new federal capital contributions in the Perkins Student Loan program. In addition to these programs, the System also received funding through the Pell Grant program and the Direct Loan program. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

During the year ended June 30, 2006, the System obtained authorizations to award Colorado student financial aid funds of approximately \$274,000 in the Colorado Leveraging Educational Assistance program, \$5,288,000 in the Colorado Student Grant program, \$2,152,000 in the Colorado Work-Study program, \$237,000 in the Merit program, \$1,479,000 in the Governor's Opportunity Scholarship, \$181,000 in Colorado Supplemental Leveraging Educational Assistance program, and \$1,000 in the Perkins and Health Professionals Student Loan Matching Program.

The related Statement of Appropriations, Expenditures, Transfers, and Reversions of State-Funded Student Financial Assistance Programs is presented on page 95 of this report, as well as individual universities' schedules of appropriations, expenditures, transfers, and reversions of State Funded Student Financial Assistance Programs on pages 97 and 98.



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**Independent Auditors' Report on the
Statement of Appropriations, Expenditures,
Transfers, and Reversions of the State-Funded
Student Financial Assistance Programs**

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance (SFSA) Programs (the Statement) of the Colorado State University System (the System), a component unit of the State of Colorado, for the year ended June 30, 2006. The Statement is the responsibility of the Colorado State University System's management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the Statement, the Statement was prepared in accordance with the format set forth in the Colorado Commission on Higher Education (CCHE) *Audit Guide*, and in conformity with the provisions of the CCHE *Financial Aid Policy*. The Statement is a summary of cash activity of the State-Funded Student Financial Assistance programs with the exception of the Colorado Work-Study program and Perkins Loan Program, and does not present certain transactions that would be included in the Statement of the State-Funded Student Financial Assistance programs if it was presented on the accrual basis of accounting, as prescribed by U.S. generally accepted accounting principles. Accordingly, the accompanying statement is not intended to present the financial position, changes in net assets, or cash flows of the SFSA programs in conformity with U.S. generally accepted accounting principles. Because the Statement presents only a selected portion of the activities of the System, it is not intended to and does not present either the financial position or changes in financial position of the System in conformity with U.S. generally accepted accounting principles.

In our opinion, the Statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance programs of the System for the year ended June 30, 2006, in conformity with the provisions of the *CCHE Financial Aid Policy*, as described in note 1 to the Statement.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2006 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Statement in conformity with the provisions of the *CCHE Financial Aid Policy*. The introduction is presented for purposes of additional analysis and is not a required part of the Statement. The introduction has not been subjected to the auditing procedures applied in the audit of the Statement, and accordingly, we express no opinion on it. The accompanying schedules of appropriations, expenditures, transfers, and reversions of Colorado State University and Colorado State University – Pueblo (the Schedules) are presented for purposes of additional analysis and are not a required part of the Statement. The Schedules have been subjected to the auditing procedures applied in the audit of the Statement and, in our opinion, are fairly stated, in all material respects, in relation to the Statement taken as a whole.

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Board of Governors, the Audit Committee, and the Colorado State University System's management and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 13, 2006

COLORADO STATE UNIVERSITY SYSTEM

Statement of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University – System

Year ended June 30, 2006

	Total Colorado Financial Aid	CLEAP	Student Grant Program	Work-Study Program	Merit Award Program	Perkins and Health Professionals Student Loan Matching Program	SLEAP	Governor's Opportunity Scholarship
Appropriations:								
Original	\$ 9,143,462	273,884	4,924,414	2,121,862	236,848	—	180,999	1,405,455
Supplementals	467,509	—	363,400	30,000	—	580	—	73,529
Transfers	—	—	—	—	—	—	—	—
Total appropriations	9,610,971	273,884	5,287,814	2,151,862	236,848	580	180,999	1,478,984
Less expenditures	9,553,537	273,884	5,287,814	2,151,862	236,848	580	123,565	1,478,984
Reversions to State General Fund	\$ 57,434	—	—	—	—	—	57,434	—

See accompanying notes to statement of appropriations, expenditures, transfers, and reversions.

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Notes to Statement of Appropriation, Expenditures, Transfers, and Reversions

June 30, 2006

(1) Basis of Presentation and Accounting

The accompanying statement of appropriations, expenditures, transfers, and reversions of State-funded student financial assistance programs by campus (the Statement) has been prepared in accordance with the format as set forth in the CCHE Audit Guides, and in conformity with provisions of the *CCHE Financial Aid Policy*. The purpose of the statement is to present, in summary form, the state-funded student financial assistance activities of the Colorado State University System's (the System) two campuses for the fiscal year ended June 30, 2006.

All State-funded student financial assistance is expensed on a cash basis, except for the Perkins Loan program and the Colorado Work-Study program. Perkins student loans are recorded as loans receivable when the funds are disbursed. Colorado Work-Study wages are recorded on the accrual basis recognizing expenses when the services are performed.

Because the Statement presents only a selected portion of the activities of the System, it is not intended to and does not present either the financial position or changes in financial position of the System in conformity with accounting principles generally accepted in the United States of America.

(2) Colorado Leveraging Educational Assistance Program (CLEAP) and Colorado Supplemental Leveraging Educational Assistance Program (SLEAP)

CLEAP and SLEAP grants consist of nonfederal state funds and federal funds. The state must match 50% of the federal funds. The amount shown in the Statement is a combined total of nonfederal and federal funds.

COLORADO STATE UNIVERSITY SYSTEM

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University

Year ended June 30, 2006

	Total Colorado Financial Aid	CLEAP	Student Grant Program	Work-Study Program	Merit Award Program	Perkins and Health Professionals Student Loan Matching Program	SLEAP	Governor's Opportunity Scholarship
Appropriations:								
Original	\$ 6,256,337	191,806	3,461,214	1,480,661	201,911	—	123,565	797,180
Supplementals	393,976	—	327,184	—	—	580	—	66,212
Transfers	—	—	—	—	—	—	—	—
Total appropriations	6,650,313	191,806	3,788,398	1,480,661	201,911	580	123,565	863,392
Less expenditures	6,650,313	191,806	3,788,398	1,480,661	201,911	580	123,565	863,392
Reversions to State General Fund	\$ —	—	—	—	—	—	—	—

See accompanying independent auditors' report.

COLORADO STATE UNIVERSITY SYSTEM

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University – Pueblo

Year ended June 30, 2006

	Total Colorado Financial Aid	CLEAP	Student Grant Program	Work-Study Program	Merit Award Program	Perkins Loan Matching Program	SLEAP	Governor's Opportunity Scholarship
Appropriations:								
Original	\$ 2,887,125	82,078	1,463,200	641,201	34,937	—	57,434	608,275
Supplementals	73,533	—	36,216	30,000	—	—	—	7,317
Transfers	—	—	—	—	—	—	—	—
Total appropriations	2,960,658	82,078	1,499,416	671,201	34,937	—	57,434	615,592
Less expenditures	2,960,658	82,078	1,499,416	671,201	34,937	—	57,434	615,592
Reversions to State General Fund	\$ —	—	—	—	—	—	—	—

See accompanying independent auditors' report.

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